



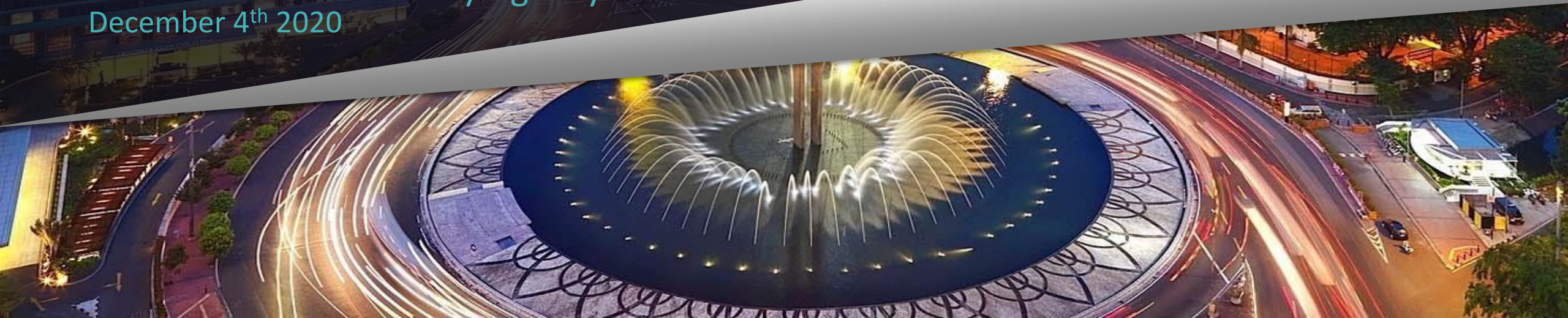
MINISTRY OF FINANCE
REPUBLIC OF INDONESIA



TOKYO FISCAL FORUM

FISCAL POLICY ROLE IN HANDLING COVID-19 IMPACT IN INDONESIA

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Chairman of Fiscal Policy Agency
December 4th 2020





COVID-19 PANDEMIC IS STILL ESCALATING GLOBALLY

COVID-19 PANDEMIC IS ESCALATING GLOBALLY

Although the recovery rate keeps increasing, the daily case and death rate still have to be monitored closely.

GLOBAL
CUMULATIVE
CASES
63.06 mil

RECOVERED
43.54 mil

ACTIVE CASE
18.06 mil

DEATH
1.46 mil

Highest cumulative cases:

1. The US 13.75 mil
2. India 9.43 mil
3. Brazil 6.31 mil
4. Russia 2.27 mil
5. France 2.22 mil
- ...
16. South Africa 787 K
- ...
19. Chile 550 K
- 22. Indonesia 538 K**
- ...
26. Bangladesh 462 K
27. Philippines 429 K

Recovery rate:

Global **69%**
Indonesia **84%**

Active cases:

Global **28.7%**
Indonesia **13%**

Fatality rate:

Global **2.3%**
Indonesia **3.2%**

ESCALATIVE in >216 countries

EPICENTER continue to shift to high populated countries

NEW NORMAL is being implemented worldwide, yet daily cases rise significantly; creating **new waves**

VACCINES are being developed, however we have to remain cautious due to its complexity

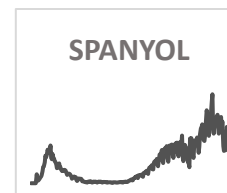
THE RISK FOR ECONOMY REMAINS HIGH, due to uncertainty

NEW PATTERN OF WITH NEW WAVES THAT HIT VARIOUS COUNTRIES

GERMANY



SPANYOL



THE UK



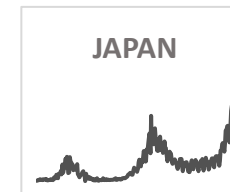
RUSIA



SOUTH KOREA



JAPAN

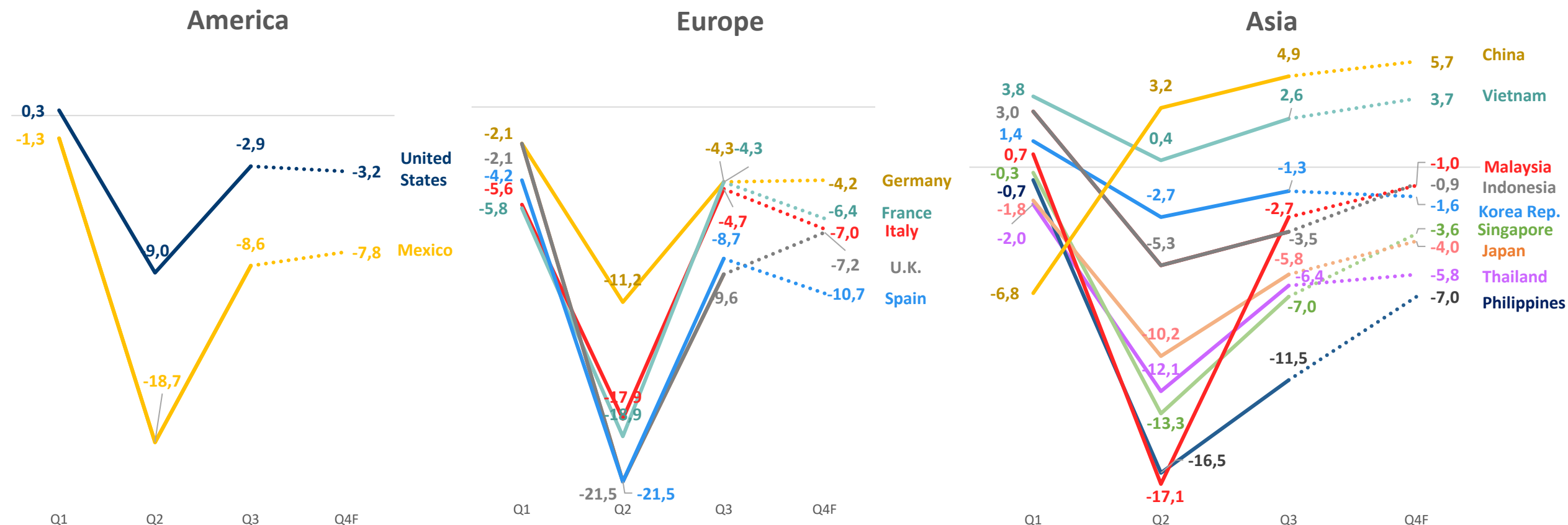




Q3-2020 WAS A TURNING POINT THAT SHOWED ECONOMIC IMPROVEMENT IN VARIOUS COUNTRIES

The improvement was supported by relaxation of social restrictions. However, increases in new Covid-19 cases and new waves could put risk on the outlook for Q4-2020

Quarterly GDP Growth in 2020 (% , yoy)



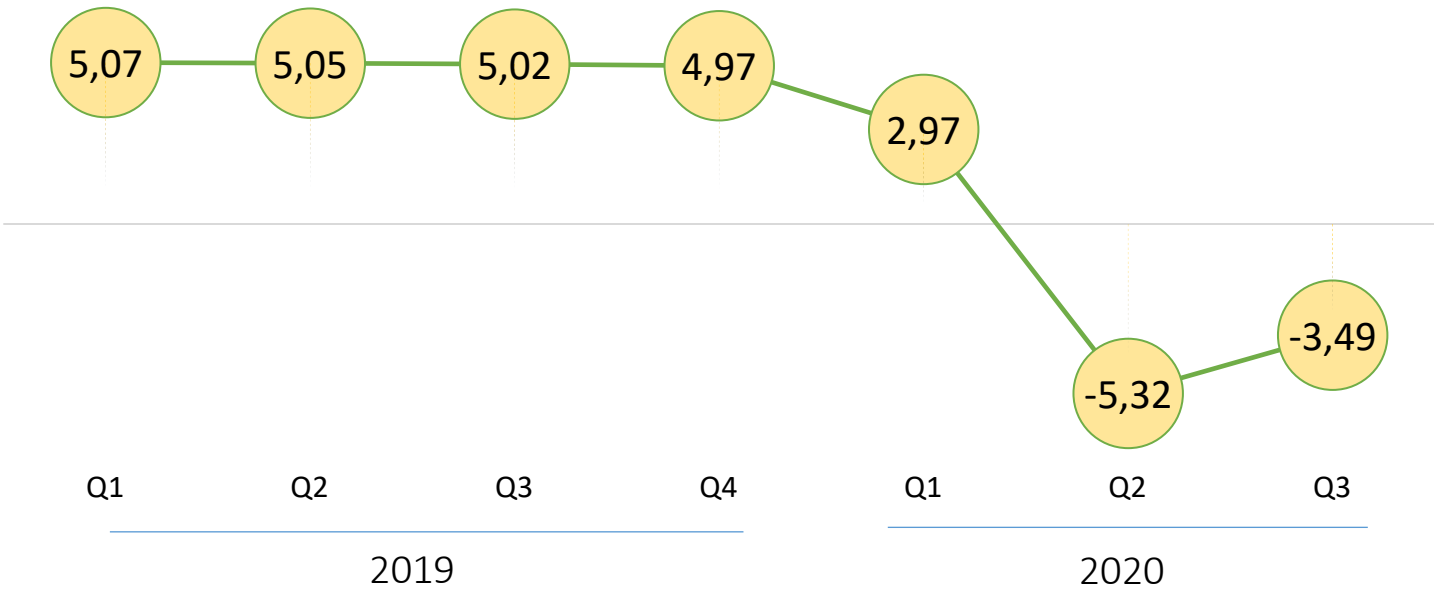
Global Growth Projection (% , yoy)	2020F		2021F	
	IMF	-4.4	5.2	
	World Bank	-5.2	4.2	
	OECD	-4.2	4.2	



INDONESIA Q3-2020 GROWTH: A TURNING POINT

Indonesia Economy Has Improved Supported by Strong Government Consumption

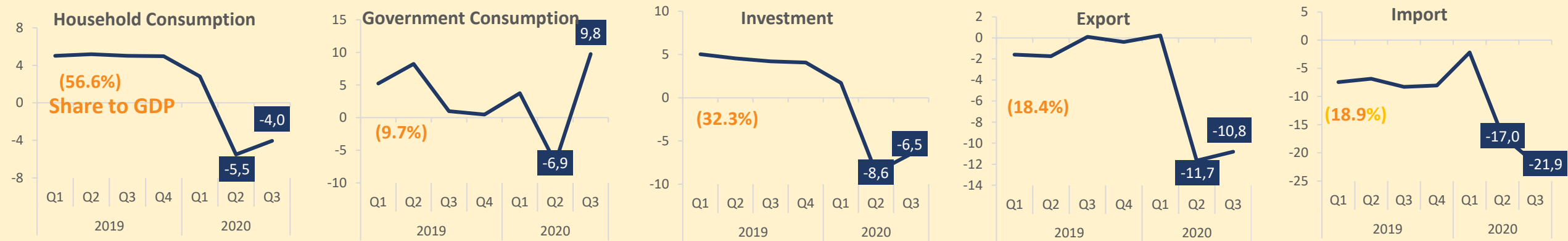
GDP growth (% , yoy)



Indonesia's Growth Outlook 2020 (% , yoy)

Institutions	Outlook
MoF	-1.7 to -0.6
OECD	-2.4
IMF	-1.5
World Bank	-2.0 to -1.6

GDP by Expenditure (% , yoy)





GOVERNMENT IS GRANTED A FLEXIBLE FISCAL POLICY TO PROVIDE FUNDING IN HANDLING PANDEMIC & MITIGATING ECONOMIC IMPACT

GOVT REGULATION IN LIEU OF LAW (PERPPU) NO.1/2020 (31 March 2020) LAW No 2/2020 (18 May 2020)

- The legal basis for the government to flexibly adjust the fiscal policies, including budget and its deficit..
- Allowing the government to continually refocusing and reallocation budget without parliament approval process
 - The state budget deficit has to be returned to a maximum of 3% in 2023

1st change of state budget (Presidential Decree - Perpres No. 54/2020)

With extraordinary and very urgent conditions, the State Budget deficit policy exceeds the 3% limit, through the enactment of Perpu No.1 / 2020 (becoming Law No.2 / 2020). Prioritized on health and social security spending.

2nd change of state budget (Presidential Decree - Perpres No. 72/2020)







Responding to the increasing needs of the Covid-19 pandemic handling and to maintain the economy and financial system stability, including running the National Economic Recovery Program (PEN)

	Initial State Budget UU No. 20/2019	1 st change Perpres No. 54/2020	2 nd change Perpres No. 72/2020
Budget Deficit to GDP	1.76%	5.07%	6.34%
Budget Deficit	IDR307.2 tn (~USD 21.0)	IDR852.9 tn (~USD 58.2 bn)	IDR1,039.2 tn (~USD 70.9 bn)
2020 Financing Need	IDR 741.8 tn (~USD 50.6 bn)	IDR 1,439.8 (~USD98.3 bn)	IDR 1,645.3 (~USD112.3 bn)

Indonesia's policy responses in dealing with Covid-19 crisis prioritizing 3 aspects:
protecting people's health and saving lives; maintaining purchasing power particularly the poor, and preventing bankruptcy



COMPREHENSIVE STIMULUS PROGRAM TO SAVE LIVES & ECONOMY

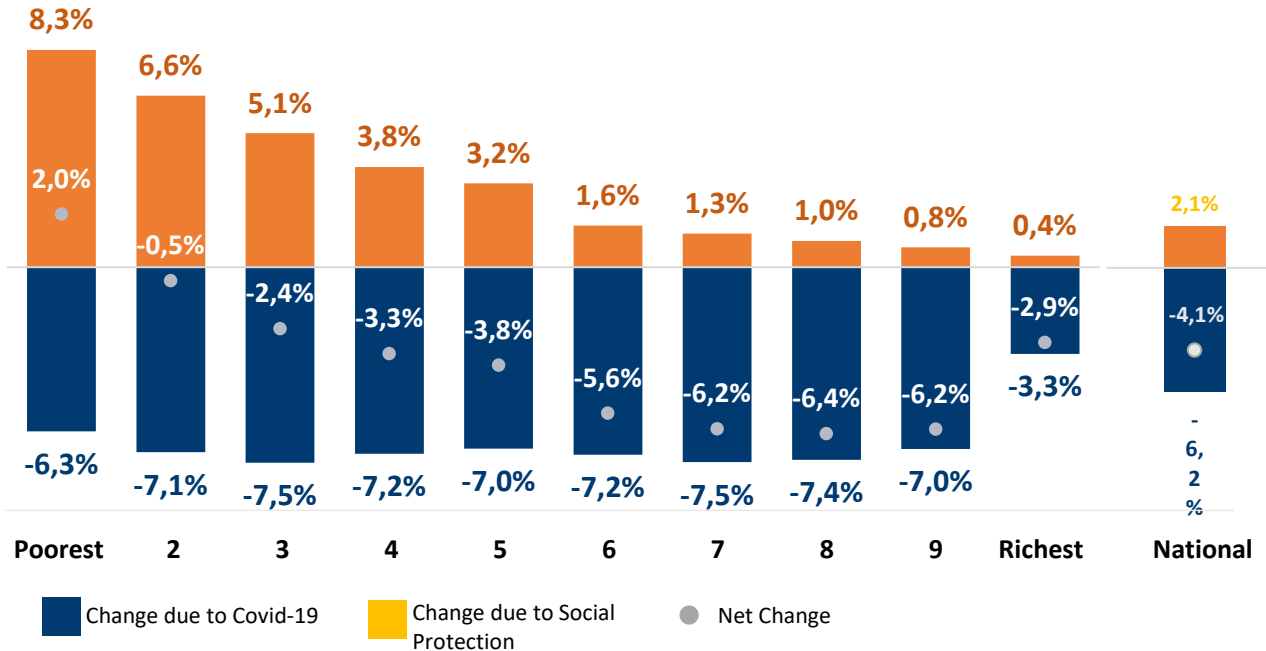
NATIONAL ECONOMIC RECOVERY PROGRAM (PEN)		Rp695.2 T (4.2% of GDP)		Realization (as of Nov 25) 62.1%	
 Rp97.90 T Realization 41.2%	 Rp233.69 T Realization 88.9%	 Rp65.97 T Realization 54.9%	 Rp115.82 T Realization 85.3%	 Rp61.2 T Realization 3.3%	 Rp120.6 T Realization 38.5%
Health	Social Protection	Sectoral & Regional Gov't	SMEs	Corporate Financing	Business Incentives
<p>To address the pandemic by ensuring the quality of treatment and accelerating the containment effort</p> <ul style="list-style-type: none">■ Expenditure for Covid-19 Handling■ Incentives for Paramedic■ Death Compensation■ National Health Insurance Fee■ Covid-19 Task Force■ Tax Incentives in Health	<p>To protect the poor and the vulnerable as the most impacted group during pandemic:</p> <ul style="list-style-type: none">■ Conditional Cash Transfer Program■ Non Cash Food Assistance■ Social Assistance■ Pre-Working (unemployment benefit)■ Electricity Discount■ Cash Transfer through Village Fund	<p>To empower sectoral and regional governments in responding COVID-19 pandemic</p> <ul style="list-style-type: none">■ Line Ministries labor Intensive Program■ Housing Incentives■ Tourism■ Regional Incentive Fund■ Physical Special Allocation Fund■ Regional Loan Facility	<p>To maintain sustainability of MSME as critical part of economic recovery</p> <ul style="list-style-type: none">■ Interests Subsidy■ Fund Placement■ Guarantee Return■ Working Capital Guarantee (Stop Loss)■ Government-Borne Final Income Tax■ Investment Financing to Cooperatives	<p>To ensure the financing availability for economic recovery phase</p> <ul style="list-style-type: none">■ Labor Intensive-Fund Placement■ State Equity Participation■ Working Capital Investment Rp29.65T	<p>To provide cushion for impacted businesses through for example fiscal incentive</p> <ul style="list-style-type: none">■ Government-Borne Income Tax;■ Income Tax Exemption on Import■ Tax Deduction VAT Return■ Corporate IT Rate Reduction



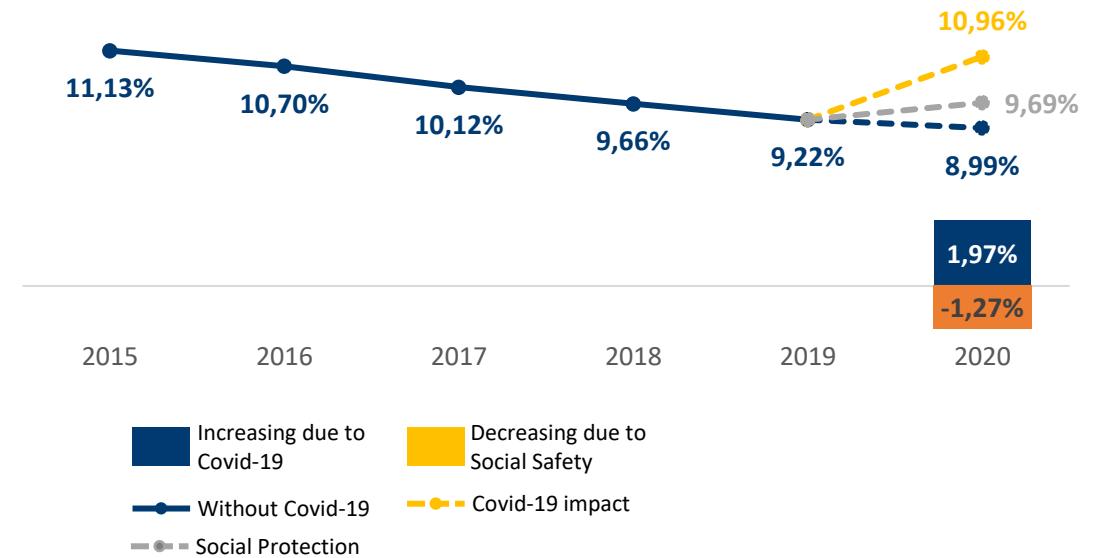
SOCIAL PROTECTION PROGRAMME HAS A POSITIVE IMPACT ON THE CONSUMPTION OF THE POOR AND THE VULNERABLE

As of Q3-2020, social protection programme has become an effective cushion for 3.43 million people

Household Expenditure as the Impact of Covid-19 and Social Safety



Social Safety Program Could Slowdown the Impact on Covid-19 to Poverty



Source: BKF Calculation

Social Protection Disbursement as of Q3-2020:

Rp157 T
(99.3%)



PKH 10 mil Family



Food assistance Jabodetabek 1,9 mil Family



Cash transfer for non-PKH 9 mil Family



Food Voucher 19,4 mil Family



Wage subsidy 12,4 mil employees



Village Fund 8 mil people



Cash Transfer Non-Jabodetabek 9,2 mil Family



Rice Subsidies for PKH participants 10 mil Family



Wage subsidy 2,4 million honorary teacher

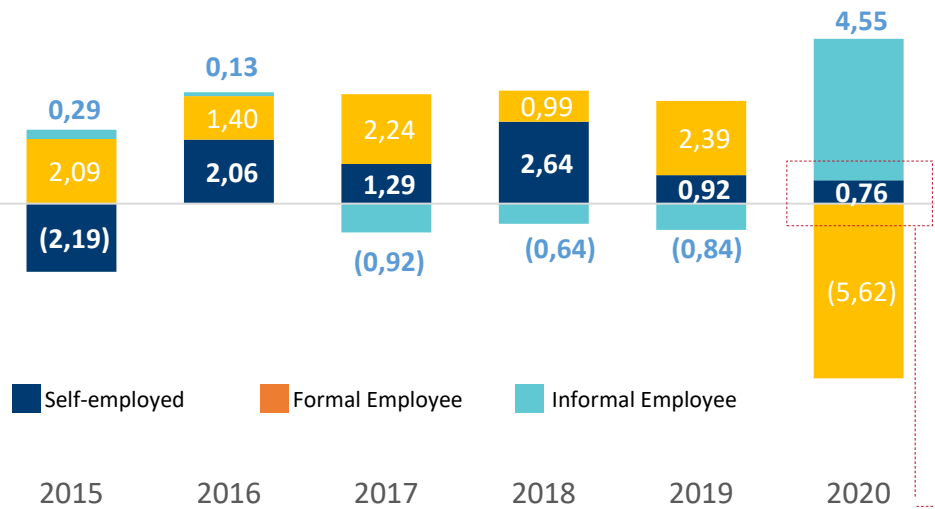


Pre-employment Card 5,6 mil people

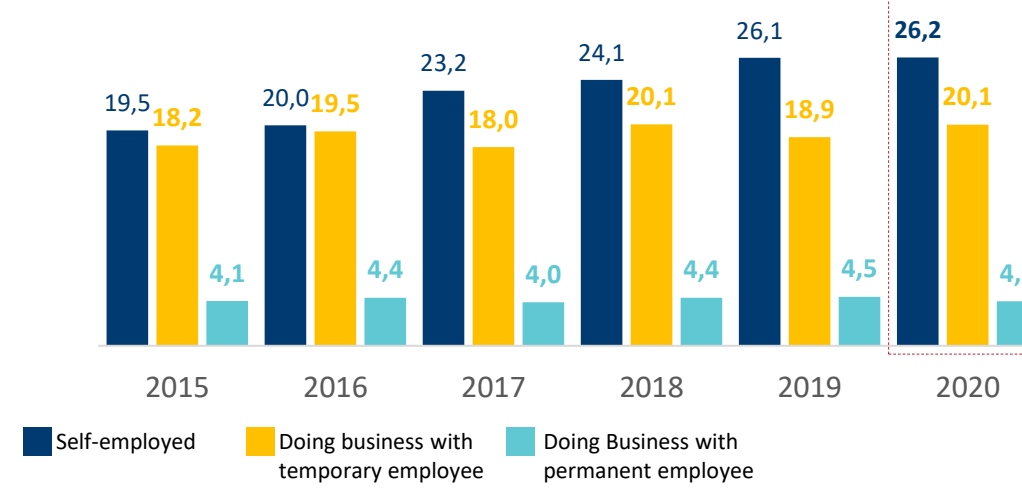
AMID THE PANDEMIC, PEN PROGRAMME FOR MSME's ACCELERATE NEW BUSINESSES

As of Q3-2020, social protection programme has become an cushion for 3.43 million people

Switch to informal sector and self-employment
(in million people)



Medium and large enterprises turning to MSME's
(in million people)



Doing business with temporary employee

↑ 1.13
Million people

Self-employed

↑ 40
Thousand people

Source: Central Bureau of Statistics, processed

PEN Programme
SUBSIDY
& **MSME's**



Fertilizer subsidy
7.2 mn ton



Housing incentives
12.904 unit



Interest subsidy for MSME's
20.4 (thousand entrepreneurs)



MSME's credit guarantee
246.6 (thousand entrepreneurs)



Electricity discount/ waiver 31.4 thousand customers (household and MSME's)



Investment financing through LPDB 101 (thousand MSME's)



Assistance for micro enterprises
9.23 (million micro enterprises)



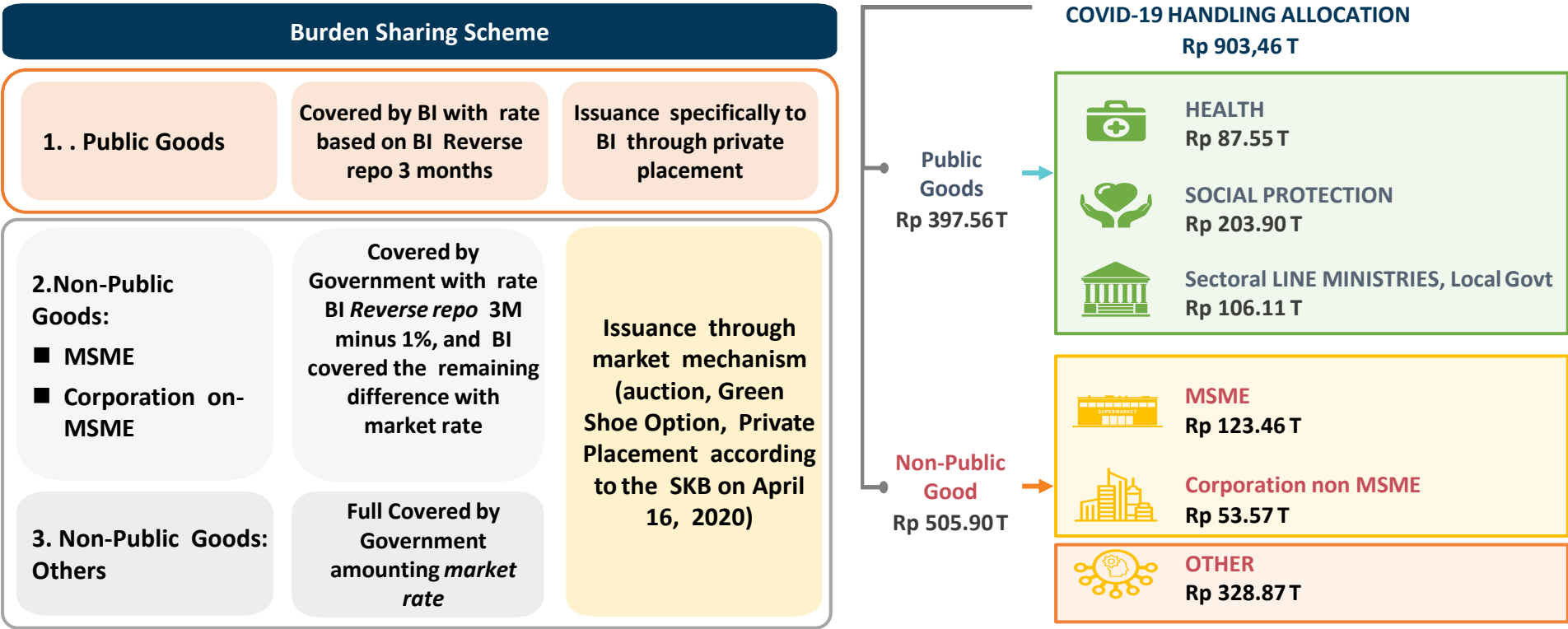
SYNERGY BETWEEN MINISTRY OF FINANCE AND CENTRAL BANK

Joint Collaboration between the Government and the Central Bank in Accelerating National Economic Recovery

The enactment of Emergency Law No.1 / 2020 (becoming Law No.2 / 2020) allows BI to buy GS in the primary market

1st Joint Decree between Minister of Finance and Governor of Bank Indonesia (BI) on April 16, 2020 (SKB I)
The role of BI is as **backstop buyer** in the primary market

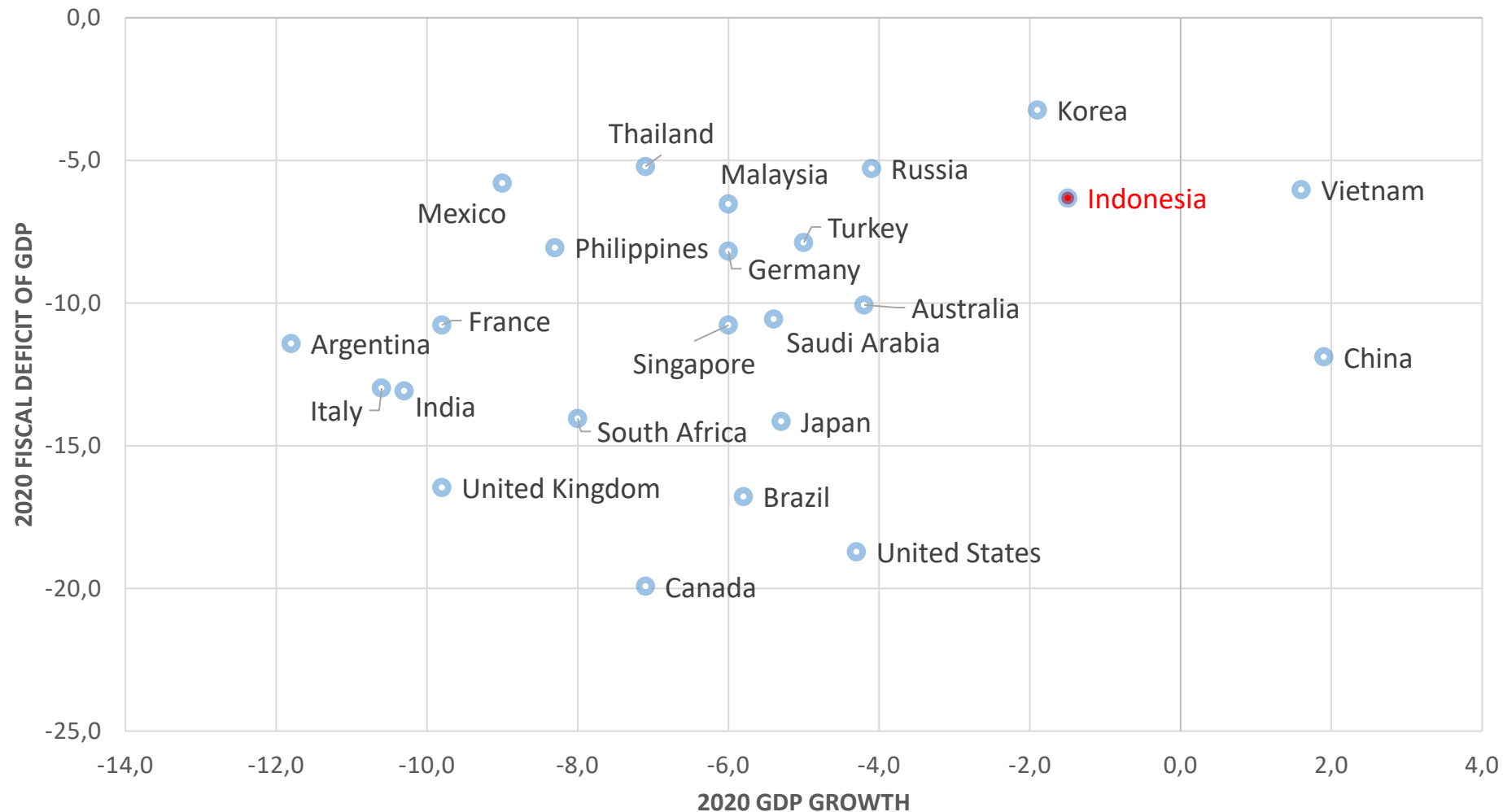
2nd Joint Decree between Minister of Finance and Governor of BI on July 7, 2020 amended with Joint Decree on July 20, 2020 (SKB II)





FROM GDP GROWTH AND FISCAL DEFICIT PERSPECTIVE, THE PRESSURES TO INDONESIA ARE RELATIVELY MODERAT COMPARED TO MANY COUNTRIES

GDP Growth & Fiscal Deficit 2020, G-20 and ASEAN-6 (%)



- Covid-19 pandemic has given deep impact to all economies around the world.
- The extraordinary event has led countries to pour huge stimulus.
- As a result, growth contraction and widening deficit happen across the board.
- **Compared to G20 and ASEAN peers, Indonesia's growth contraction and widening deficit are relatively moderate.**

EXPANSIVE AND CONSOLIDATIVE FISCAL POLICY DIRECTION IN 2021

To Respond to Economic Challenges, Accelerate Recovery and Strengthen the Reform Effort

Expansive

Consolidative

Effectiveness of
COVID-19 Handling

Acceleration of
Economic Recovery (PEN)

Exit Strategy From Middle
Income Trap

Anticipating
Uncertainty

Fiscal Flexibility
(Prudent & Sustainable)

Macro Assumption 2021

	State Budget
Economic Growth (%)	5.0
Inflation (% , yoy)	3.0
Exchange Rate (Rp/US\$)	14,600
10-year Govt Bond (%)	7.29
ICP (Oil Price) (US\$/barrel)	45
Oil Lifting (thousand barrel/day)	705
Gas lifting (thousand barrel equivalent oil /day)	1,007

Economic Growth Driver 2021

COVID-19 Handling

- COVID-19 handling including the Vaccine Availability in 2021

Expansive Fiscal to Support Continuation of Economic Recovery

- Support from demand side by strengthening social assistance and cash transfer
- Support from supply side by focusing on tax incentive, providing credit and guarantee for MSME and corporation

Accelerating Reform

- OL in Job creation: fundamental change by addressing overlapping regulations and improving Indonesia's investment climate
- Budget Reforms: spending better approach, result oriented, efficiency, as well as risk mitigation
- SWF: The flexibility and ability to setting-up fund in relevant authorities in central government and attracting the investors

Global Economic Growth

- Improving global economic growth particularly major trading partners



THE 2021 BUDGET POLICY

Comprehensively Designed to Support the Acceleration of Economic Recovery and to Anticipate the Prolonged COVID-19 Pandemic

(Items - in IDR trillion)	2020	2021	
	Pres. Decree 72/2020	APBN	Growth
A. State Revenue	1,699.9	1,743.6	2.6%
I. Domestic Revenue	1,698.6	1,742.7	2.6%
1. Tax Revenue	1,404.5	1,444.5	2.8%
2. Non-Tax Revenue	294.1	298.2	1.4%
II. Grant	1.3	0.9	-30.8%
B. State Expenditure	2,739.2	2,750.0	0.4%
I. Central Government Expenditure	1,975.2	1,954.5	-1.0%
1. Line Ministries	836.4	1,032.0	23.4%
2. Non Line Ministries	1,138.9	922.6	-19.0%
II. Regional Transfer and Village Fund	763.9	795.5	4.1%
1. Regional Transfer	692.7	723.5	4.4%
2. Village Fund	71.2	72.0	1.1%
C. Primary Balance	(700.4)	(633.1)	-9.6%
D. Surplus/(Deficit)	(1,039.2)	(1,006.4)	-3.2%
% to GDP	(6.3)	(5.7)	
E. Financing	1,039.2	1,006.4	-3.2%

Priorities Programs in 2021



EDUCATION (Rp550.0T)

Strengthening the quality of education and teacher competences



HEALTH (Rp169.7T)

Accelerating health recovery, National Health Insurance (JKN) reforms, and vaccine procurement



SOCIAL PROTECTION (Rp421.7T)

Supporting social protection reform and comprehensive social protection



FOOD SECURITY (Rp104.2T)

Increase food production and revitalizing the national food system and developing Food Estate



INFRASTRUCTURE (Rp413.8T)

Provision of infrastructure for basic services, improving connectivity, and supporting economic recovery, and continuing pending priority programs



ICT (Rp29.6T)

Optimizing the use of ICT to support and improve the quality of public services



TOURISM (Rp15.7T)

Encouraging the recovery of the tourism sector

National Economic Recovery (PEN) Program in 2021 IDR 372.1 T



Health
IDR 25.40T



Social Protection
IDR 110.2T



MSME Support
IDR 48.8 T



Business Incentive
IDR 20.4 T



Sectoral & Regional Govt
IDR 152.4 T

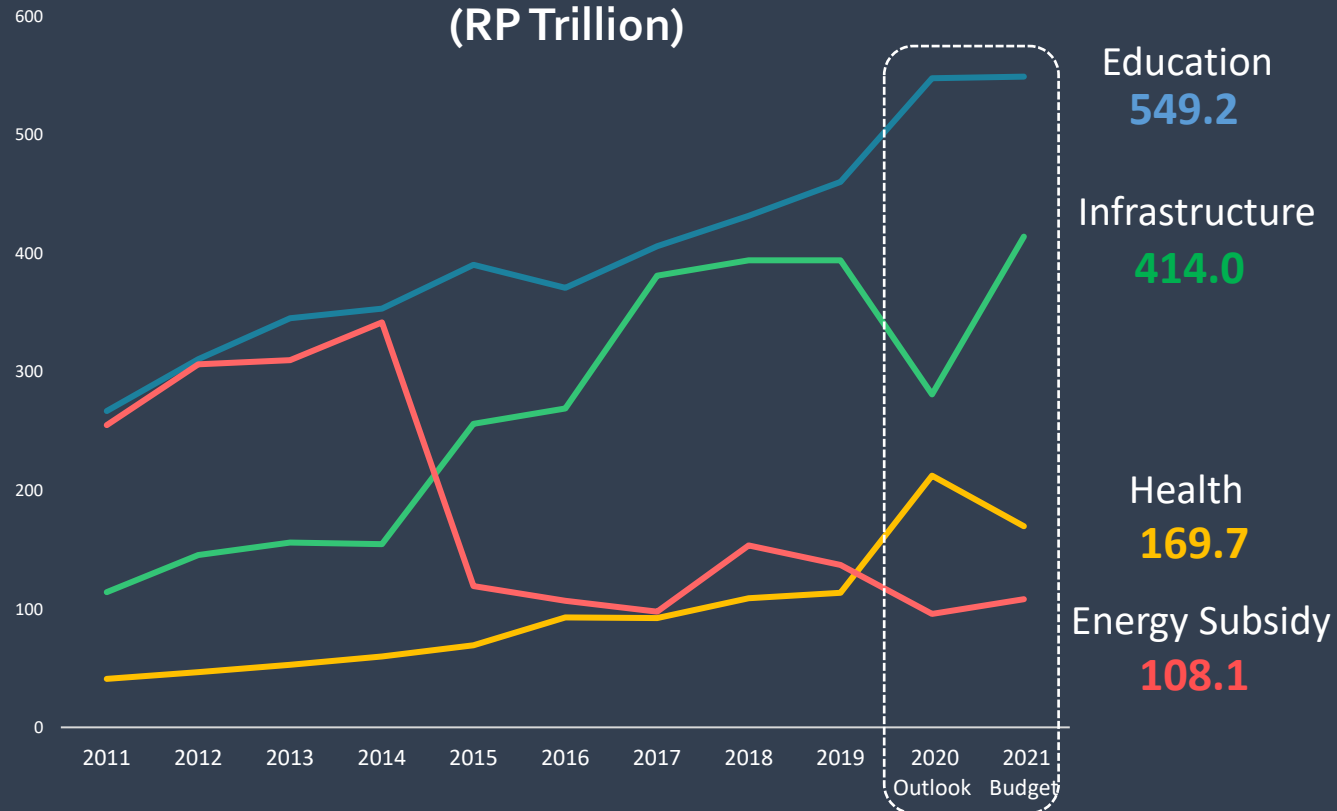


Corporate Financing
IDR 14.9 T



STATE BUDGET HAS BEEN SUPPORTING HUMAN CAPITAL QUALITY IMPROVEMENT THROUGH HIGH SPENDING ALLOCATION FOR EDUCATION AND HEALTH

State Budget Expenditures (RP Trillion)



Source: Ministry of Finance

Δ 2021 : 2014

Education  ▲ 55.4%

Infrastructure  ▲ 167.6%

Energy Subsidy  ▼ -68.4%

Health  ▲ 184.3%

Spending policy is prioritizing infrastructure, human capital development and social protection

...Spending on infrastructure drop in 2020, due to some infrastructure projects delayed and reallocation for spending on health during pandemic outbreak. In 2021, various strategic projects and programs will be continued, including infrastructure acceleration...

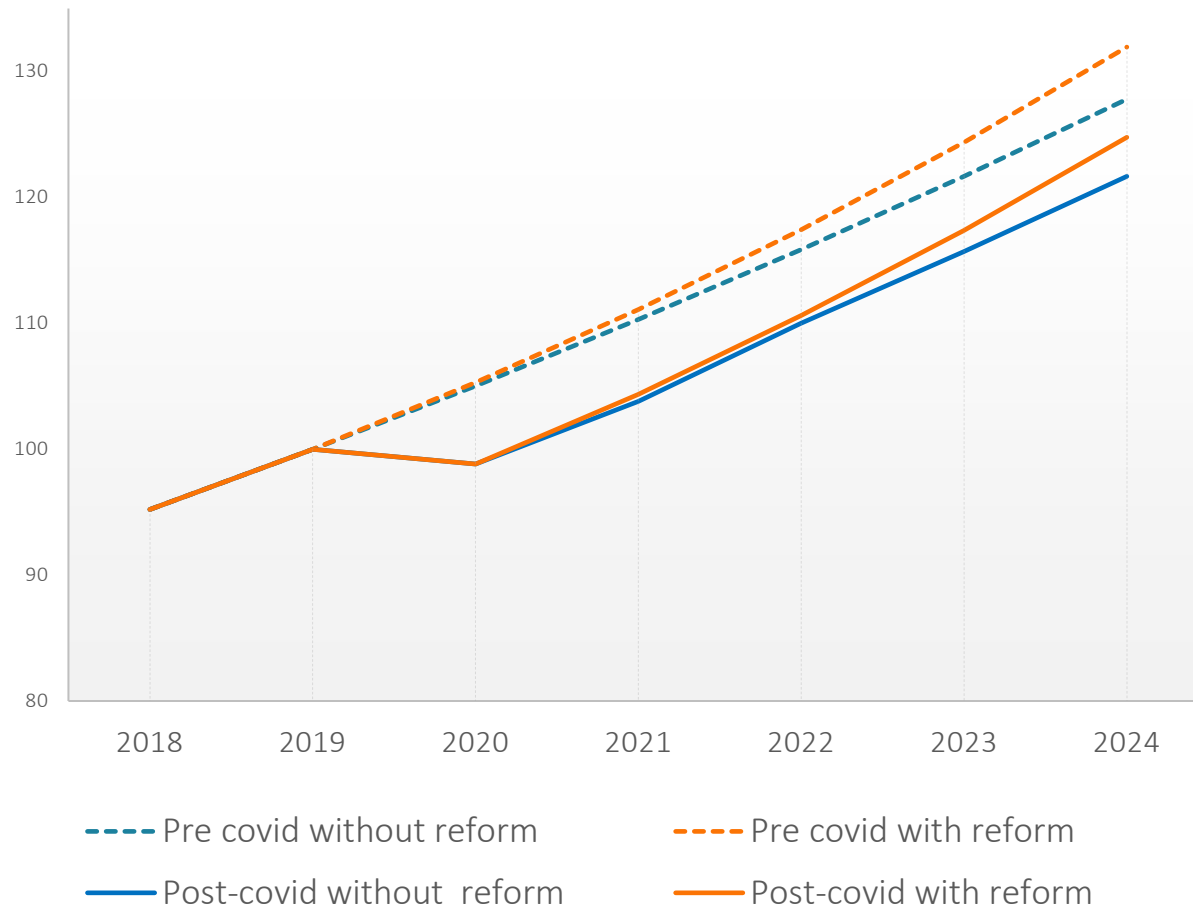


MEDIUM TERM MACRO-FISCAL FRAMEWORK

Smooth fiscal consolidation balanced with simultaneous structural reforms to achieve sustainable development vision

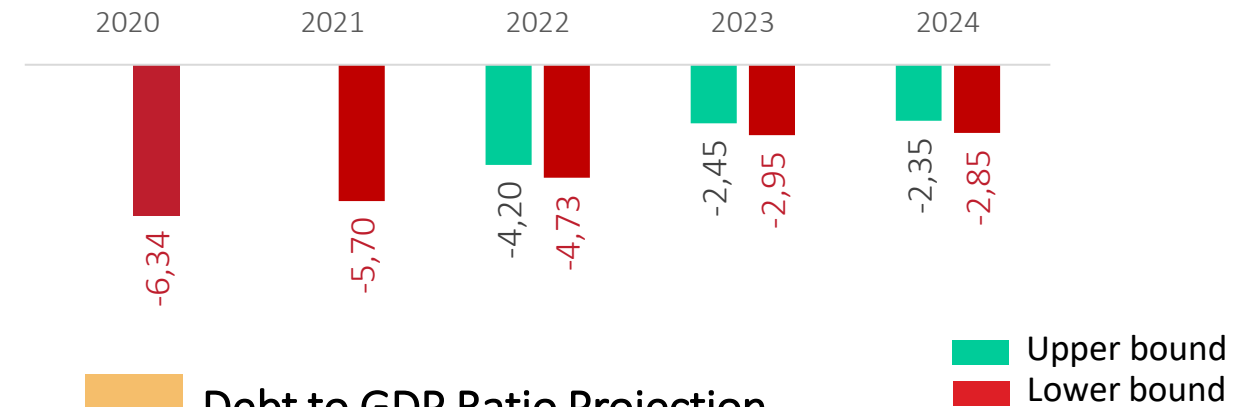
Indonesia Growth Path

Source: BKF's estimation, 2019=100



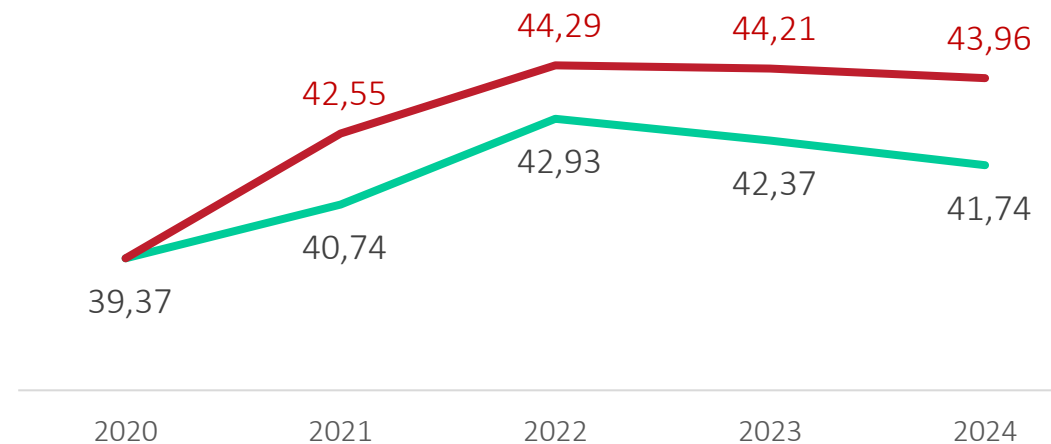
Fiscal Deficit Projection

Source: KEM PPKF - MoF



Debt to GDP Ratio Projection

Source: KEM PPKF - MoF





CONTINUOUS FISCAL & STRUCTURAL REFORMS WILL BE IMPLEMENTED TO REACH LONG TERM DEVELOPMENT OBJECTIVE



Human Capital Development



Infrastructure Development



Deregulation



Cutting The Red Tape



Economic Transformation

GOVERNMENT COMMITMENT IN FISCAL & STRUCTURAL REFORM

Improving quality of spending through effective education, health, and social protection budget to drive human capital quality

Continue the infrastructure development by strengthening digital infrastructure and encourage logistic efficiency and connectivity

Omnibus Law on Job Creation

- Simplification on regulation
- Bureaucratic efficiency
- Ease of Doing Business
- Tax incentive
- Manpower (Labor, severance pay, foreign workers, outsource, expatriates, etc.
- Ease, Protection and Empowerment of Micro, SMEs
- Government Administration to Support Job Creation
- Supports for Research and Innovation
- Land Procurement
- Central Government Investment & Ease of Nation's Strategic Project
- Economic Zone

Supported
by improving
revenue
mobilization



MINISTRY OF FINANCE
REPUBLIC OF INDONESIA



THANK YOU