



COVID-19: How Does It Impact to Indonesian Economy

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Abstract

In December 2019, novel Coronavirus (nCoV), has emerged in the Huanan Seafood Market, in Wuhan State of Hubei Province in China and has been the focus of global attention. This virus was named as COVID-19 by WHO on January 12. Corona virus began to enter Indonesia in February 2020. The massive spread of COVID-19 caused a decline in economic activity. This has happened in various sectors such as household consumption, investment and financial institutions in Indonesia. Household consumption is expected to fall to 2.6 percent. In the household sector there is a threat of loss of community income because they cannot work to fulfill their daily needs, especially for poor and vulnerable households and the informal sector. The decline also occurred at MSMEs. This business actor cannot conduct his business activities so that his ability to fulfill credit obligations is impaired. The corporate sector has also been disrupted by economic activities, especially in manufacturing, trade and transportation. Financial institutions also have the potential to experience liquidity problems, causing depreciation of Indonesian currency, volatility in financial markets and capital flight. To mitigate that, policy coordination between the Government, Bank Indonesia and OJK is very important to maintain economic stability.

Keywords: Covid-19; economic growth; exchange rate; inflation

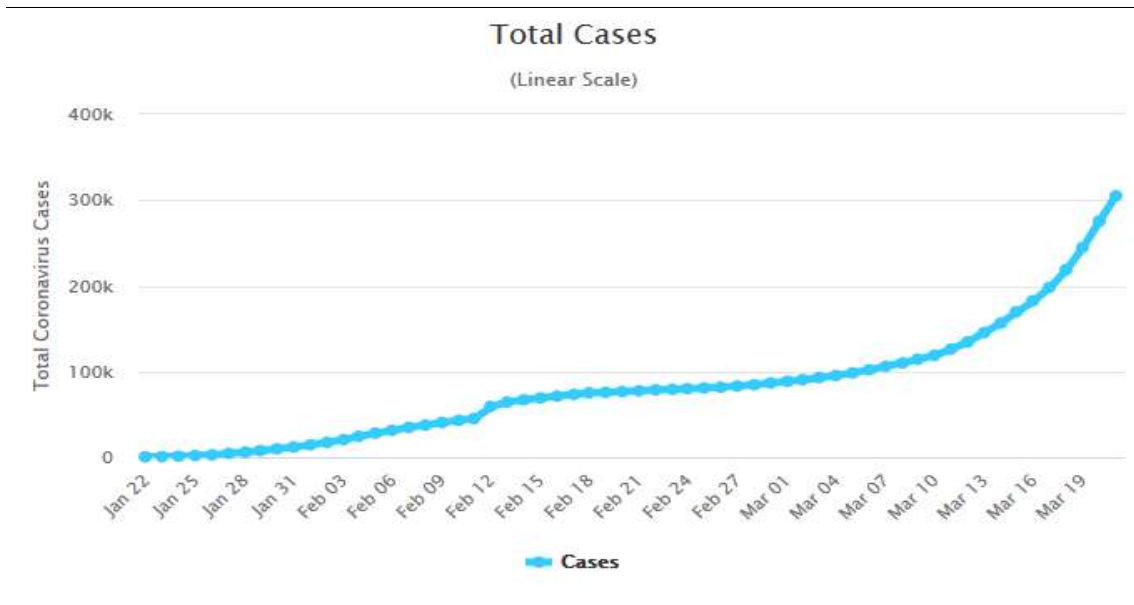
Introduction

In December 2019, novel Coronavirus (nCoV), which is another public health problem, has emerged in the Huanan Seafood Market, where livestock animals are also traded, in Wuhan State of Hubei Province in China and has been the focus of global attention due to a pneumonia epidemic of unknown cause. Chinese authorities announced on January 7, 2020 that a new type of Coronavirus (novel Coronavirus, nCoV) was isolated. This virus was named as COVID-19 by WHO on January 12 (Sahin et.al, 2019; Johnson et.al, 2020; Chinazzi et. al, 2020; WHO, 2020; Sohrabi et.al, 2020).

Based on data from www.worldometer.info, as of March 22, 2020, a total of 318,868 positive confirmed cases of COVID-19 and 13,676 patients who died. The coronavirus COVID-19 is affecting 192 countries and territories around the world and 1 international conveyance (the Diamond Princess cruiseship harbored in Yokohama, Japan). Corona virus began to enter Indonesia in February 2020, after the virus first appeared in December 2019. The number of positive cases of the Corona virus (Covid-19) in Indonesia continues to grow. As of March 22, 2020, based on data from the Covid-19 Handling Acceleration Task Force, there were an additional 64 positive cases in Indonesia. With these additions, the number of positive cases of Corona virus in Indonesia has now become 514. From that data, as many as 437 positive patients of Covid-19 are now undergoing treatment in several hospitals. Until that date, there have been 48 Covid-19 patients who died in Indonesia, while Covid-19 patients who recovered reached 29 people. (www.covid19.go.id).

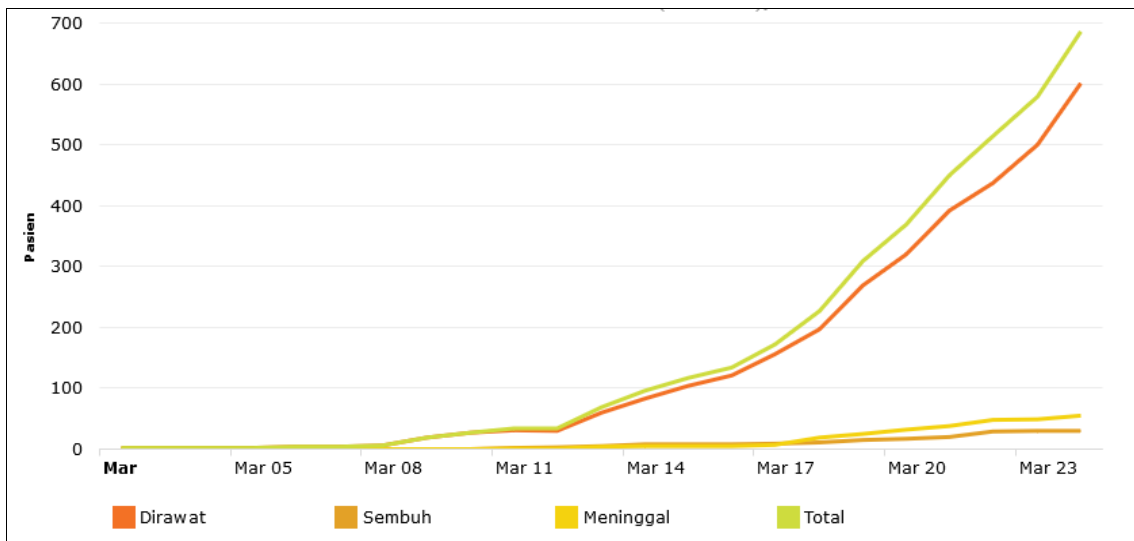
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Source: Worldometer, 2020

Figure 1. Currently Infected Patient in Worldwide on 22 March 2020



Source: Ministry of Health of Indonesia, 2020

Figure 2. Currently Infected Patient in Indonesia on March 23, 2020

Medical data continues to change every day, but one thing for sure, on March 5, 2020, there were 7 countries with the largest economy in the world that were devastated by this Covid-19 outbreak, these are the United States, China, Japan, Germany, Britain, France and Italy. China is by far the hardest hit country. With the beating of the United States, China, Japan, Germany, Britain, France and Italy alone, 60% of world supply and demand (GDP), 65% of world manufacturing, 41% of world manufacturing exports will decline. Economic disruptions in these countries - especially China, Korea, Japan, Germany and the United States - which are also in the global value chain, will result in 'supply chain contagion' in almost all countries (Baldwin & diMauro, 2020).

In an interconnected and integrated world, disruption of the global supply chain and a slowdown in the Chinese economy with disruption of production, will make companies around the world, regardless of size, who depend on input from China, begin to experience a contraction in production. Travel between restricted countries has further slowed global economic activity. Most importantly, some panic among consumers and companies has distorted consumption patterns in general and created market anomalies. Global financial markets are also responsive to changes and global stock indices have fallen (McKibbin & Fernando, 2020).

Lockdown policies taken by various countries to prevent further spread of COVID-19 hampered economic activity and put pressure on future world economic growth, including economic growth in Indonesia. Center for Indonesian Policy Studies (CIPS) researcher Pingkan Audrine Kosijungan assessed that Indonesia needs to be aware of the threat of economic recession in the midst of the Corona virus (Covid-19). Economic recession is considered to occur due to several things ranging from global supply chain disruptions, weakening export-import demand and services, as well as declining business activities in various countries. Pingkan said, looking at the various dynamics of the global economy, the government's economic growth target of 5.3 percent in 2020 would be difficult to achieve (Kompas, 2020).

From the problem mentioning above, the aim of the study is to analyze the impact of the Covid-19 outbreak on the Indonesian economy, and how the policy maker deal with that.

Research Method

This research is an exploratory study, a research that aims to explore broadly about cause and effect or things that influence the occurrence of something (Arikunto, 2006: 7). In exploratory study, researchers do not have a definite picture of the definition or concept of research. The researcher will ask the question what to dig further information. The nature of exploratory research is creative, flexible and open. All sources are considered important sources of information. The purpose of exploratory research is to make new topics more widely known to the general public, provide a basic overview of the topic, generalize ideas and develop tentative theories, open up the possibility of further research on the topics discussed, and determine the techniques and directions to be used in subsequent studies. Data and information used in this study are secondary data, which researchers collected from official sites such as the World Health Organization, Bank of Indonesia, Central Bureau of Statistics, Ministry of Health of the Republic of Indonesia, as well as information retrieval from trusted online mass media sites.

Result and Discussion

Coronavirus is a large family of viruses that cause diseases in humans and animals. In humans usually causes respiratory infections, from the common cold to serious illnesses such as Middle East Respiratory Syndrome (MERS) and Severe Acute Respiratory Syndrome (SARS). SARS-CoV usually infects young people, MERS-CoV infects people aged above 50 years and COVID-19 infects middle age and above. Case series have reported that COVID-19 affects the cardiovascular system. Acute kidney failure was more commonly seen in SARS-CoV and MERS-CoV epidemics compared to COVID-19 (Sahin et al, 2020).

The rapid spread of the COVID-19 outbreak in Indonesia certainly had a profound effect on the Indonesian economy. The call for physical distancing, work, study and worship at home, to the prohibition of activities that cause a crowd certainly makes the economic wheel almost stopped. The response of the government and the community that made prevention efforts, such as school closures, work from home, especially formal sector workers, delays and cancellations of various government and private events, made the wheels of economic turnover slow down.

Economic Growth

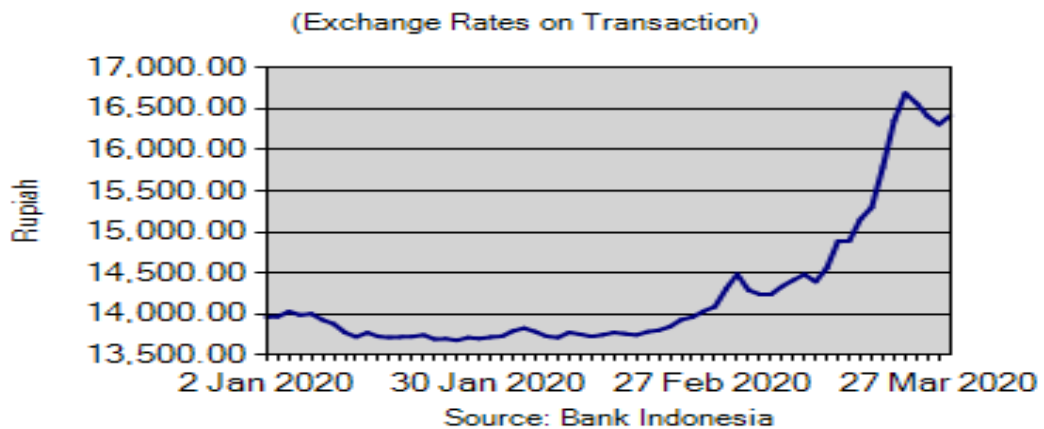
Finance Minister of Indonesia Sri Mulyani Indrawati, the Indonesian Deposit Insurance Corporation/LPS and the Financial Services Authority/OJK estimate that Indonesia's economic

growth in 2020 will be in the range of 2.3 percent. Even in the worst case scenario, could touch -0.4 percent. The worst scenario could happen if the COVID-19 pandemic continues in the long run. The massive spread of COVID-19 caused a decline in economic activity. This has happened in various sectors such as household consumption, investment and financial institutions in Indonesia. Household consumption is expected to fall to 2.6 percent. In the household sector there is a threat of loss of community income because they cannot work to fulfill their daily needs, especially for poor and vulnerable households and the informal sector. The decline also occurred at MSMEs. This business actor cannot conduct his business activities so that his ability to fulfill credit obligations is impaired. The corporate sector has also been disrupted by economic activities, especially in manufacturing, trade and transportation. The disruption will reduce business performance so that it causes termination of employment and even bankruptcy. Financial institutions also have the potential to experience liquidity problems, causing depreciation of Indonesian currency, volatility in financial markets and capital flight (Liputan6, 2020).

Specifically for the Quarter I-2020, Sri Mulyani estimates that economic growth will only range from 4.5 to 4.9 percent. Meanwhile, for the Quarter II-2020, Sri Mulyani did not expect much from an increase in consumption ahead of the Idul Fitri holiday. Bank Indonesia also revised the projections for Indonesia's economic growth in 2020. BI cited the projection of Indonesia's economic growth in 2020, 5-5.4 percent, down from the original estimate in the range of 5.1-5.5 percent. This outbreak was very beneficial and had an impact on the tourism, trade and investment sectors. Nevertheless, BI estimates that Indonesia's economic growth will grow again in 2021 to 5.2-5.6 percent (Kompas, 2020).

Exchange Rate

Indonesia currency exchange rate has continued to weaken against the US dollar since February 2020. The weakening of Indonesian currency is driven by global investor concerns over the spread of the COVID-19. As of March 30, 2020, Indonesian currency exchange rate moved in the range of 16,155 per USD to 16,320 per USD. If calculated from the beginning of the year, the Indonesian currency weakened 17.7 percent. While based on the Jakarta Interbank Spot Dollar Rate (Jisdor) reference rate, the Bank Indonesia (BI) rupiah was set at 16,336 per US dollar, weakening when compared to the previous benchmark at 16,230 per US dollar. As noted by the IMF, the COVID-19 outbreak has caused a global economic and financial crisis (Bank Indonesia, 2020)



Source: Bank Indonesia, 2020

Figure 3. Indonesian Currency Exchange Rate January- March 30, 2020

Balance of Payment

Foreign exchange reserves from the Indonesian tourism sector, 13 percent comes from China, the second largest after Malaysia. In terms of trade and supply chains, 27% of non-oil and

gas imports and 16.7% of Indonesia's import market share came from China. The ban on live animal imports and food and beverage from China will certainly have an impact on the reduced supply from China. From the domestic side, in the midst of the call for social distancing, making people reduce their daily activities, so that the impact on the demand (consumption) and the impact of availability due to a reduction in production activities. For capital flows, Sri Mulyani has also seen a decline in investor risk appetite, encouraging investment in safe haven instruments, so that fiscal performance is contracted (CNBC Indonesia, 2020)

Declining of economic growth prospects for the world will reduce the growth prospects for Indonesia's exports of goods, although in February 2020 the increase will be driven by exports of coal, CPO and some manufactured products. On February 2020, Indonesia's exports increased by 11 percent compared to February 2019, while imports decreased by 5.11 percent for the same period. Exports of services, particularly the tourism sector, are also predicted to decline due to hampered inter-country mobility processes in line with efforts to mitigate the risk of expanding COVID-19 (Central Bureau of Statistic, 2020)

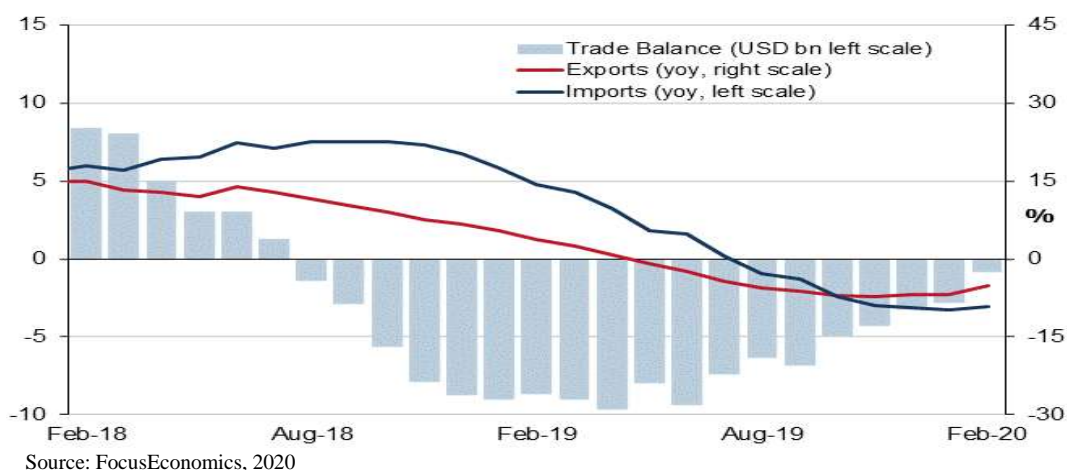


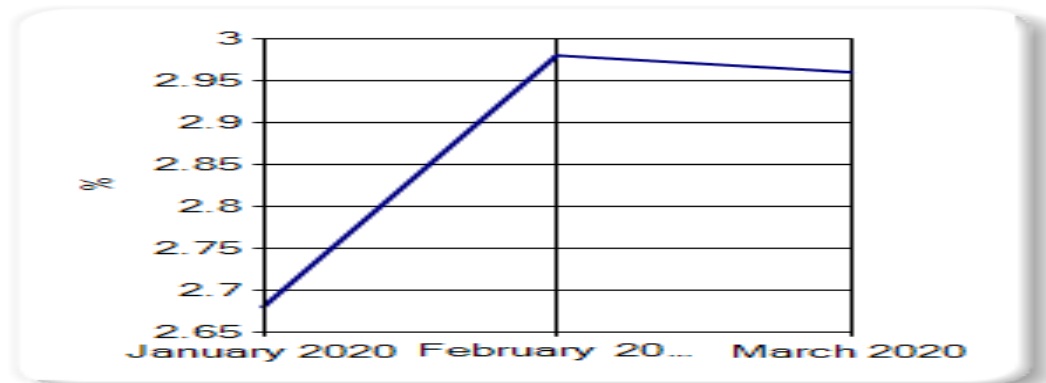
Figure 4. Indonesia's Trade Balance on February 2020

Inflation

The Central Bureau of Statistics recorded March 2020 inflation of 0.10% monthly or m-o-m. This figure is lower than the previous month's inflation of 0.28% m-o-m. While calendar year inflation was 0.76% and annual inflation was 2.96% m-o-m. The main causes of inflation in March 2020 were an increase in the price of gold jewelry with an inflation share of 0.05%, chicken eggs with a 0.03% share, onions with a 0.03% share, granulated sugar with a 0.02% share, rice and side dishes by 0.01%, and filter cigarettes and white cigarettes each contributing 0.01% (Kontan, 2020).

To mitigate the impact of the Covid-19 outbreak on the Indonesian economy, the authors propose several policies that need to be taken by the Indonesian government: *first*, spend money to prevent, detect, control, treat, and contain the virus, and to provide basic services to people that have to be quarantined and to the businesses affected, for example, national governments can allocate money for local governments to spend in these areas or mobilize clinics and medical personnel to affected places, as China and Korea have done (Mauro, 2020); *secondly*, in order to maintain people's purchasing power as a result of the economic slowdown, the government is required to be able to reduce the burden of costs that are directly under the government's control, including basic electricity, fuel and clean water tariffs; *third*, provide tax relief for people and businesses who can't afford to pay. China is easing the tax burden for firms in the most vulnerable regions and sectors, including transportation, tourism, and hotels. Korea is providing income and tax extensions to businesses in the affected industries. China, Italy, and

Vietnam are offering tax extensions to cash-strapped businesses. Iran is simplifying taxation for corporations and businesses. China is allowing for a temporary suspension of social security contributions for firms; *fourth*, the government's efforts to maintain the purchasing power of the grassroots by providing direct cash transfers to people who experience a decline in income and lay off, need to be supported by policies to ensure the smooth supply and distribution of goods, especially food; *fifth*, the Financial Services Authority (OJK) enforces policies that encourage financial institutions to reschedule and refinancing private sector debts, in addition to MSMEs, as well as for businesses that face market risk and high exchange rates; *seventh*, policy coordination between the Government, Bank Indonesia and OJK is very important to maintain economic stability and increase public confidence in Indonesia's economic performance. It is necessary to analyze and evaluate the impact of the Covid-19 on Indonesia's economy from time to time, observe external conditions, and take further policy coordination steps to maintain macroeconomic and financial system stability, and sustain Indonesia's economic growth remains good and resilient.



Source: Bank Indonesia, 2020

Figure 5. Inflation Rate of Indonesia on March 2020

For this time, government is getting serious about combating the economic impact of Covid-19. The additional budget of Rp405.1 trillion was prepared by the government to withstand the effects of the epidemic in the economic and social sectors. The additional funds in the 2020 APBN are allocated to the four main sectors exposed, namely health spending of IDR 75 trillion, social protection of IDR 110 trillion, tax incentives and stimulus for people's business credit (KUR) of IDR 70.1 trillion, and national economic recovery of IDR 150 trillion.

Conclusion

Based on tracking data and information from official government websites and trusted online mass media, it can be concluded the massive spread of COVID-19 caused a decline in economic activity. Household consumption is expected to fall to 2.6 percent. In the household sector there is a threat of loss of community income because they cannot work to fulfill their daily needs, especially for poor and vulnerable households and the informal sector. The decline also occurred at MSMEs. This business actor cannot conduct his business activities so that his ability to fulfill credit obligations is impaired. The corporate sector has also been disrupted by economic activities, especially in manufacturing, trade and transportation. The disruption will reduce business performance so that it causes termination of employment and even bankruptcy. Financial institutions also have the potential to experience liquidity problems, causing depreciation of Indonesian currency, volatility in financial markets and capital flight. To mitigate that, policy coordination between the Government, Bank Indonesia and OJK is very important to maintain economic stability and increase public confidence in Indonesia's economic performance. It is necessary to analyze and evaluate the impact of the Covid-19 on Indonesia's economy from time to time, observe external conditions, and take further policy coordination steps to maintain

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