KEEPING THE ECONOMIC WHEELS TURNING AMID THE COVID-19 CRISIS

By Arwin Rasyid

This article continues on from the writer’s previous article titled "Maintaining Liquidity Amid the Covid-19 Crisis"(published in *The Jakarta Post* on 15 April 2020). In the previous article, the writer discussed the importance of maintaining financial liquidity so as to mitigate the crisis.

In this article, the writer will review the impact of the Covid-19 pandemic on the economy and offer some suggestions as to how the Indonesian economy as a whole can be protected. Given the fallout from the Covid-19 pandemic, the national economy has come under severe strain. This is evident from a range of indicators, all of which point to a growing economic crisis.

***First***, increasing numbers of workers in the formal sector are losing their jobs, while many millions in the informal sector have lost their only sources of livelihood. Large numbers of workers have been laid off by hotels, cafes and restaurants, shopping centers and malls, taxi operators, and bus and other transportation companies. Those that have lost their jobs are often the only breadwinners in their families.

***Second***, ever more sectors are being affected. The MSME sector, which saved the Indonesian economy from total disaster during the 1998 crisis, is now the worst hit. But the pain is felt everywhere. Even companies with a global brand have been brought low – for example, Kentucky Fried Chicken (KFC) has been forced to close 100 outlets and lay off 450 staff. Indeed, according to the Indonesian Hotel and Restaurants Association (PHRI), some 7,000 F&B outlets have closed thus far, with losses upwards of Rp 2 trillion. Large corporates that employs thousands of workers are also not spared.

***Third***, pressure is building on the financial sector due to the many borrowers who are now unable to meet their interest and principal payments to the banks and other financial institutions. This means that many financial institutions will have to resort to restructuring programs.

With the signs of an impending economic crisis becoming clearer by the day, we as a nation face challenges on two fronts.

***First***, the public-health front: how to contain the spread of Covid-19, cure patients, provide social assistance, procure the necessary health equipment, establish special Covid-19 hospitals and so on? All of this is essential and must have our unstinting support as it involves people’s lives.

***Second***, the economic front: how to keep the wheels of the economy turning by providing "life support" to individuals, MSMEs and large businesses so that they can survive?

Both of these challenges are crucial and must be overcome. It’s like riding a bicycle: you have to rotate both pedals at the same time. If you focus on one pedal only, then you’re going to fall off.

It is not only a matter of striking a balance between the public health and economic challenges, but also ensuring equity in the distribution of assistance. The writer welcomes the government's efforts to help those who are most vulnerable in society, such as online motorcycle taxi drivers. Of course, this on its own is not enough as workers across almost all economic sectors are being badly affected.

Similarly, the stimulus measures and regulatory relaxations introduced in certain sectors, such as the hospitality/tourism and financial-services industries, need to be extended to all sectors as, sooner or later, everyone is going to be hit, whether small or large. The existing responses also need to be enhanced as they have thus far failed to fully answer the needs of the real sector.

The fact that all sectors are being affected is a reflection of basic economics. The economy of a nation is made up of a chain of mutually interconnected activities. In fact, it may be said that the economy is the sum of the millions, even billions, of transactions taking place at a certain period of time. Financial transactions conducted by companies, households and individuals are the heart and veins of a nation’s economy. When we go shopping for clothes, buy cinema tickets, eat in restaurants, travel on planes, stay in hotels, everything involves expenditure. At the same time, what we spend represents income for others. And so it has always been.

With the introduction of partial-lockdowns in various parts of the country, financial transactions have plummeted by between 40%-60% as many people have lost their income sources and many companies have suspended operations. If all transaction activities stop, then all economic actors in the country, even in the world, will be affected.

In a country's economy, the government is the biggest spender and biggest economic actor, especially in times of crisis. In the some 200 countries affected by Covid-19 around the world, a common thread is the efforts by governments to save their economies by launching economic stimulus packages.

It is interesting to see what other governments are doing in this regard. In the US, the government provides assistance to companies that have less than 500 employees through a paycheck protection program of up to USD 10 million (equivalent to IDR 150 billion) so as to avoid layoffs. In Italy, tax payments have been postponed until the total amounts to 10% of GDP. In Germany, the government will purchase the shares of companies affected by the crisis, then pay the salaries of the employees of these companies and get a return on its equity investments in the future.

The writer believes that that a number of measures can be taken quickly to keep the wheels of the domestic economy running after they were brought to a virtual halt due to partial lockdowns around the country.

***First***, the relaxation measures for SMEs and big businesses are not enough as what they really need is fresh liquidity or new loans to cover routine operational costs (electricity, rent, etc.), and to be able to keep paying their workers and avoid layoffs. Many businesspeople say that without fresh liquidity, they will only able to survive until the end of June 2020, at the most. Given this, the government needs to quickly introduce a stimulus in the form of soft, unsecured loans of up to, say, Rp 10 billion, with tenors of two years, to be channeled through sound banks based on prudential lending principles.

***Second***, banks, especially banks in the Book IV category, should develop a scheme so as to avail of government stimulus programs as a source of low-cost funds. The assumption here is that the government will provide stimulus funds to the banks at an interest rate of 3% per year for 3 years. The banks can then "blend" this money with their own and lend it out to businesses at an interest rate of 6% -8% per year for 2 years. Such a scheme would mean that the stimulus funds will not be grants, and the that banks would be able to provide new loans (with the risk resting squarely with the banks) at special interest rates that should not unduly burden either SMEs or big companies that are in need.

***Third***, the banks can be creative without increasing credit risk in the case of, for example, individual borrowers or companies that were properly fulfilling their loan repayment obligations before the Covid-19 pandemic. Such borrowers should not only be entitled to a 6-month relaxation on their principal and interest payments, but should also be automatically entitled to access new loans, such as up to a maximum of 20% -25% of the principal under an existing loan that is being repaid.

***Fourth***, in the case of assistance to people who have lost their livelihoods, the government should transfer money directly to their bank accounts to cover their monthly basic needs. According to 2018 Susenas data, average monthly household expenditure on basic needs in Indonesia is in a range of Rp 1.5 million – Rp 2 million. Let’s just take the lower figure, Rp 1.5 million per month per household. If around 30 million people lose their jobs, then the government will need to provide at least Rp 45 trillion per month in assistance. This means that some Rp 270 trillion will be needed to cover just 6 months. Nevertheless, transferring money directly to a person’s bank account is far more effective than directly handing out basic essentials, which is not only inefficient but also vulnerable to all manner of abuses. However, in order to ensure that only those who are entitled to receive direct cash assistance actually do so, accurate data will be required.

***Fifth***, given that stimulus needs to be provided promptly and on a massive scale, the distribution process should involve not only banks but also P2P fintech platforms registered with the OJK. Digital banking technology and fintech platforms are reliable. With big data analytical technology, the government can work together with the fintech sector to distribute funds online. The fintech sector continues to operate normally. Indeed, with a fully digital business model and non-physical contact e-KYC, loan applications have actually increased by more than 40% over the past two months. Given this, the government should consider providing registered fintech companies with liquidity injections so that they can distribute assistance funds directly to the bank accounts of MSMEs and those who have lost their livelihoods. Data on entitled people who are currently outside the banking and fintech ecosystems can be inventoried based on existing government demographic and spatial data provided by government bodies such as district administrations, the population administration service, etc.

The writer is not in a position to calculate the total amount of money that will be needed to fund stimulus spending over the next 6 months. However, according to KADIN Indonesia, at least Rp 1,600 trillion will be needed. That amounts to almost 10% of Indonesia's GDP, which makes sense given that the stimulus packages in other countries generally range from 10% to 20% of GDP, for example, 21% in Germany, 15% in Spain, 14% in France, 14% in UK, 10% in U.S., Switzerland (5%), South Korea (5%), 19% in Malaysia, 20% in Japan, and 12% in Singapore.

Finally, small numbers add up to big numbers. KADIN and APINDO (Indonesian Employers' Association), the banking community, APPI (Indonesian Financial Services Association) and AFPI (Indonesian Fintech Funding Association) can provide the information needed by the government to ascertain what is happening in the real sector. Microeconomic conditions also need the same focus and attention as macroeconomic issues. To get the real picture, the government needs to look at things on a tree-by-tree basis, as well as looking at the forest as a whole. It is to be hoped that by providing "life support" to individuals and businesses - both large and small -- the economy will be able take care of itself. It is also to be hoped that none of the economic actors that have supported the national economy thus far will be excluded from this historic rescue effort. We can only hope!

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