

# 1 Introduction:

## The impact of COVID-19 in Indonesia

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Beginning in December 2019 the novel coronavirus swept quickly through all regions of the world. COVID-19 has wreaked social, political and economic havoc everywhere and has shown few signs of entirely abating. The recent development and approval of new vaccines against the virus, however, now provides at least some reasonable hope that we may be coming to the beginning of the end of the pandemic. This volume collects papers from a conference organised by the Australian National University's Indonesia Project titled *Economic Dimensions of COVID-19 in Indonesia: Responding to the Crisis*, which was held 7–10 September 2020. It constitutes the first thorough analysis of the impact of the pandemic in Indonesia and government's initial response to its deleterious effects.

Collectively, the chapters in this volume focus for the most part on the economic and socioeconomic elements of COVID-19 in Indonesia. After the overview, the remaining chapters can be usefully organised according to three broad topics: monetary and fiscal affairs; trade, labour and poverty; and health, human capital and gender. We begin this introductory chapter by summarising the main points of each chapter. We conclude with a brief discussion of Indonesia's path ahead.

### Overview

Hal Hill emphasises that the pandemic represents one of the most serious challenges faced by Indonesia in its 75-year history as a nation. While the country's health system has struggled to respond successfully, macroeconomic policy has been reasonably adept. COVID-19's impact on poverty and unemployment has been generally significant but varied in its

severity across Indonesia's vast geography. Overall—thanks to good luck and effective management—negative economic effects have been restrained, at least as compared to those of other countries in the region. Hill argues it is unlikely that the crisis will force the Widodo administration to change its general policy direction in any fundamental way.

## **Monetary and fiscal affairs**

Stephen Grenville and Roland Rajah discuss the two main tasks for monetary policy in the context of the ongoing pandemic: to mitigate short-term portfolio outflows and to help finance the budget deficit. The authors demonstrate that financial outflows, which rose considerably at the beginning of the crisis, quickly stabilised thanks to government intervention in the currency and bond markets. They then examine Bank Indonesia's unaccustomed role in financing the deficit through the purchase of government bonds. While 'money printing' has obvious macroeconomic risks, it is clearly justified by the current conditions. The authors call on Bank Indonesia to develop a sound exit strategy from its government bond-buying program.

Masyita Crystallin and Abdurohman explore the early negative impact of the crisis on economic growth and examine the details of the government's multifaceted fiscal policy response. The authors conclude that government's comprehensive approach has been largely effective, while emphasising the difficult challenges facing program implementation, particularly funds disbursement. They stress that the pandemic has highlighted the need for continued fiscal reforms, especially regarding government mobilisation of public revenues.

Blane Lewis and Ruth Nikijuluw investigate the potential effects of COVID-19 on district government revenues and spending, household spending, and ultimately local public service access. The authors find that although declining district revenue from intergovernmental transfers and supply shock-induced decreases in household spending are considerable, the overall impact on local public service access is unlikely to be very severe via these channels. They argue that increasing central transfers to local governments would be unwise, given the longstanding ineffectiveness of districts in using their fiscal resources to enhance service delivery.

## **Trade, labour and poverty**

Arianto Patunru and Felippa Amanta consider the impact of the pandemic on Indonesia's food security. They argue that forced mobility restrictions related to the country's COVID-19 response have constrained food production, distribution and trade. These disruptions are likely to result

Sharon Bessell and Angie Bexley focus their chapter on investigating the heterogeneous impact of the crisis on the poor and other vulnerable groups. They advocate the use of multidimensional poverty measures to assess the impact of the pandemic on individuals, as opposed to households, and draw on evidence from the previous employment of such methods in South Sulawesi. The authors highlight the likelihood of particularly negative impacts of the crisis on women, especially as regards expanding time burdens and rising domestic violence.

## **The path ahead**

A challenge faced by all authors of chapters in this volume concerns difficulties in accessing quality and timely information on the impact of the pandemic and government responses to the crisis. Since the onset of the crisis, the absence of a uniform standard in terms of reporting the cases and the lack of transparency about the data have complicated management of the pandemic and efforts to study it. While such information obstacles are often present in Indonesia, the rapidly changing nature of crisis effects and reactions has intensified the usual complications. As more and better data become available, extended and enhanced analyses of the issues considered here and others can take place. Many of the chapter authors are committed to continuing to research the impact of coronavirus in Indonesia over the longer term.

Regarding the pandemic itself, the latest available information suggests that COVID-19 cases and deaths are still experiencing sharp increases in Indonesia. Many of the concerns discussed in several chapters in this volume regarding the management of the pandemic are still unresolved. Large gaps in the implementation of contact testing, contact tracing and isolation of suspected cases remain. The government continues to struggle in delivering a consistent message between enforcing strict public health measures and encouraging economic activity that increases people's mobility such as domestic tourism.

On a more positive note, the government expects to begin rolling out its coronavirus vaccination program in early January 2021. People between the ages of 18 and 59 years will comprise the initial target group. Vaccines will be made available free of charge. There will still be challenges in the logistics of the vaccine delivery and acceptance of the vaccine, as well as surveillance and monitoring of the vaccination program. Public health experts warn that the vaccine alone will not stop the pandemic; public health measures will still need to be enforced. While Indonesia is not out of the woods yet there is reason to be cautiously optimistic that recovery is underway.

in food shortages, price spikes and/or price volatility, which will in turn negatively affect the livelihoods of people working in food supply chains and threaten long-term food security, especially among the poor. Patunru and Amanta highlight needed reforms, including increased investment in agriculture, diversification of food supplies, easing food trade flows, and enhancing international cooperation to ensure regional food security.

Chris Manning examines the effects of the crisis on jobs, noting that the informal sector, tourism, labour-intensive manufacturing, construction and transport have been especially hard hit. He argues that Indonesia has avoided the more severe labour market disruptions experienced by other countries in the region, perhaps because extensive use of the internet has facilitated work from home and the new pre-employment card has enabled continued skills development, among others. He observes that some provisions in the recent ‘omnibus law’ have the potential to create better jobs during recovery.

Vivi Alatas investigates Indonesia’s social assistance targeting methods in the context of the pandemic. She determines that COVID-19 has aggravated major political and technical challenges to targeting assistance to those in need. Alatas maintains that targeting accuracy can only be improved by collecting better data on poor households and by enhancing beneficiary selection based on those data.

## **Health, human capital and gender**

Firman Witoelar and Riyana Miranti discuss the impact of the crisis on non-communicable diseases (NCDs), including mental disorders, maternal health problems, and infectious and nutritional illnesses, among others. The authors observe that NCDs have become increasingly burdensome in recent years in Indonesia and that the pandemic has exacerbated health and economic costs associated with such illnesses. The direct negative short- and long-term health effects of COVID-19 are more acute for those who suffer from NCDs. And declining nutritious food intake and reduced insurance coverage, both indirectly caused by job and income loss during the crisis, may be felt more strongly among people with NCDs.

Budy Resosudarmo and Milda Irhamni examine the effects of the crisis on human capital. They first demonstrate that the number of COVID-19 cases and related deaths in Indonesia are likely to be several times higher than reported. The authors then develop a conceptual framework that can be used to analyse the myriad and complicated channels through which the pandemic affects human capital development, focusing on health and educational performance, over both the short and long term. Drawing on the history of other pandemics, they show the effects of COVID-19 are likely to have deep and lasting impacts on the stock of human capital in Indonesia.