



DEMOCRATIZATION
MUST GO ON!

Volume II / Number 2 / April-June 2022

The Habibie Center Quarterly on

1. **Early Bid for Presidency and Policy Implications**
2. **Indonesia Post-COVID-19 Readiness:
Fairly Strong Economic Recovery**

by Umar Juoro

The Habibie Center Quarterly (THCQ)

The Habibie Center Quarterly (THCQ) is a journal that provides review from diverse perspectives on strategic changes, trends, and dynamics of Indonesia economy and politics along with their public policy implications. The Habibie Center Quarterly also provides current and quarterly reports on Indonesia economy and politics.

The Habibie Center Quarterly (THCQ) generally aims to foster thinking and constructive policy debates on Indonesia economy and politics and the broader global context. The Habibie Center Quarterly (THCQ) engages decision and policy makers, opinion leaders, practitioners, business sector, and academics. Articles range from 3000 to 3500 words, analytical in style and ideally geared at constructive policy recommendations.

Team of Editors

Editorial Board

Dewi Fortuna Anwar
Umar Juoro
Julian Aldrin Pasha
Indria Samego
Eniya Dewi
Mohammad Hasan Ansori
Zamroni Salim

Editor in Chief

Julia Novrita

Editorial Staff

Marina Ika Sari, Luthfy Ramiz, Taufan Samudra, Herawati

Communication

Mayka R., Hanifa Zama Dinnata, Ashabul Kahfi

Volume II / Number 2 / April-June 2022

The Habibie Center Quarterly on
1. Early Bid for Presidency and Policy Implications
**2. Indonesia Post-COVID-19 Readiness:
Fairly Strong Economic Recovery**

by Umar Juoro

Jakarta, Indonesia

The Habibie Center Quarterly on Early Bid for Presidency and Policy Implications



Umar Juoro is a Chairman of Institute for Democracy, Economics, and Ecology at The Habibie Center

Abstract

The presidential election is still a long way off on February 14th, 2024, but preparations for the bidding presidency have been underway at quite a high pace. In addition, pollsters are very active in gauging the popularity and electability of likely presidential candidates. The top three candidates in most of the surveys are the Minister of Defense, three-time presidential candidate, Prabowo Subianto, Governor of Central Java Ganjar Pranowo, and Governor of Jakarta, Anies Baswedan. However, only Prabowo currently gets support from political parties, as 20% of parliament seats require a presidential candidate. The party leaders who are seriously bidding for the presidency are Puan Maharani (PDIP) and Airlangga Hartarto (Golkar). Although, based on the surveys, their electability is very low at the moment. This article argues that these five political figures are likely to be presidential candidates, including the possibility of being vice president candidates. As they are in positions as minister and governor, the early bid for the presidency has policy implications.

Introduction

The direct presidential election that has run every five years since 2004 certainly attracts wide attention from the public. Attention comes very early, as those who intend to run have to get public exposure as early and as much as possible. As presidential candidates, they have to get support from political parties, which currently hold 20% of the seats in parliament. Consequently, the involvement of political parties is also very early.

This article explores the presidential election that will only run in 2024, but the process starts very early. Not only leaders of political parties, but governors and ministers are making serious efforts to get exposed in public as potential candidates for president. The very active pollsters that regularly do these surveys strengthen public attention. As previous elections were well predicted by the survey results, surveys have gained wide public attention.

Based on observations and survey results, Prabowo has a good chance to win as he is the most well-known person and is supported by his political party, Gerindra, and it is not that difficult to get partners to form a coalition. Whereas other potential candidates still have to increase their electability, especially for political party leaders, and get political party support for those who are not political party leaders. Since most potential candidates have public positions, their presidential bid has policy consequences.

Superposition Politics

Popularity and electability are the most important factors in presidential elections, as policy platforms play little role. In all presidential elections, economic issues related to basic food prices and employment are actually at the top of the public's concern. However, when it comes to votes, the candidate that the voters chose, there is no significant correlation with the platform.

The presidential candidate's platform is usually inclined toward nationalistic economic policies and the interests of the lower class. Generally, the policy platform is similar; only the rhetoric is different. The most important thing for a presidential candidate is electability. Meanwhile, voters judge candidates based on their likeness, rather than the policies they support. Political parties are in a superposition, which means the interest of the parties is to support the likely winner of a coalition while maintaining their existence. If the candidates that they support lose, they would be ready to join the ruling coalition regardless of ideology and policies. For this reason, the coalition to support presidential candidates is mainly based on political interest and not much on ideology, policies, or even constituencies. By joining the ruling coalition later, they would get access to political power, ministry seats, policies that benefit constituencies, and, of course, financial access. This happened to Golkar in the first term of Jokowi's administration, and Gerindra in the second term, and is likely to happen again in the presidential election in 2024.

In the 2009 Presidential Election, incumbent President Megawati, teamed up with Prabowo, faced her former minister, Susilo Bambang Yudhoyono (SBY), and SBY won. In the Presidential Election of 2014, the incumbent SBY faced his former Vice President, Yusuf Kalla. In 2019, Prabowo lost to Jokowi, but then Prabowo and his former running mate, Sandiaga Uno, joined Jokowi's administration as ministers. This trend is likely to continue, as politicians prefer to support the winner rather than the opposition. Currently, only two political parties, PKS and Demokrat, are in the opposition; the rest are in the ruling coalition.

The likely presidential candidates are namely Prabowo, Ganjar, Anies, Puan, and Airlangga, with the possibility that Puan and Airlangga would run as vice-president (VP) candidates, considering their low electability at around 1% so far. In terms of electability and platform, there are not many differences from the previous presidential elections. Political parties prefer to align with presidential candidates with high electability. There is a possibility that Prabowo would run with Puan as VP candidate with the support of the largest political party, PDIP, and Prabowo's Gerindra. Other smaller political parties can join the coalition or form another coalition.

Meanwhile, Ganjar's strategy is like Jokowi's strategy in the 2014 presidential election, when he had the highest electability in the surveys, but Chairman Megawati did not favor him. Through maneuvers and political pressure, Megawati finally agreed to endorse Jokowi as PDIP's presidential candidate. As a result, if Ganjar does not receive a nomination from the PDIP, he will most likely accept support as a presidential candidate from other political party coalitions.

Despite Airlangga's low electability, Golkar is persistent in supporting him as a presidential candidate. He could run with a smaller political party to form a coalition, such as PKB and PPP. He can also team up with potential VP candidates, such as West Java's governor, Ridwan Kamil, or East Java Governor, Khofifah Parawansa. Airlangga can also be a VP candidate with Ganjar, since Jokowi, as the kingmaker, seems to like this scenario. However, if the scenario were to be applied, Airlangga, Jokowi, and Ganjar would have to be ready for a bitter political fight against Megawati because she would be very upset if Ganjar jumped from PDIP to Golkar. Additionally, Airlangga has to convince his Golkar party if the scenario materializes. The smaller political parties like PKB and PPP would likely support this coalition. The other issue is that Ganjar's term as governor will end in 2023, so he will no longer have a base, not only in the political party but also in public office.

The other candidate is Jakarta's governor, Anies Baswedan, who could run with Agus Yudhoyono, SBY's son and Chairman, with potential support from Nasdem, Demokrat, and PKS. Muslim voters are strongly behind Anies, but non-Moslem voters, in general, do not support him. However, Anies' problem is similar to Ganjar's; both do not have their own political party and their governorship will end in 2022.

The Possibility of Jokowi's Third Term

There is a quite strong view among Jokowi's supporters to allow Jokowi to run for a third term. However, this is politically very difficult because it requires an amendment to the constitution, even though Jokowi controls a strong majority in parliament. Airlangga and Golkar consider the idea to come from the people's suggestion and it will be discussed in parliament. In a lighter version, the chairman of political parties PKB and PAN called for delaying the general election that would allow Jokowi to extend his presidency up to 2027. This is also very difficult because the parliament has decided to have the general election, national, local, and presidential elections on February 14, 2024. Nevertheless, the largest political party, PDI, opposes the idea. Nasdem, as a member of the ruling coalition, also opposes the idea. Certainly, the opposition parties, Demokrat and PKS, also strongly oppose the idea.

Jokowi himself has publicly rejected the idea of a third-term presidency and delayed the general election. He prefers to be the kingmaker in the presidential election of 2024. His gesture suggests that he favors Ganjar or Airlangga as presidential candidates, or a team as president and vice president candidate. Being the kingmaker for Jokowi ensures that his initiatives from his two terms as president will be continued and his legacy will be upheld.

Policy Implications

President Jokowi himself does not mind that his ministers and governors have been active in getting support for his bid for the presidency. Even so, he gives some kind of support, especially to Airlangga and Ganjar. For Airlangga, Jokowi does not mind seeing Airlangga's billboards with the slogan "Work for 2024," practically in major cities. Jokowi himself has stated that he does not intend to change the rule that allows for a maximum of two terms as president, as many have accused him of doing. Jokowi has indicated his support for Ganjar's bid for the presidency, even though this has irritated PDIP leaders, especially Puan.

As Minister of Defense, Prabowo runs policies that are not directly connected with his electability as a presidential candidate. He implements his passion as a former general to modernize military armament, especially aircraft and ships. Nonetheless, he takes a risk by signing a defense agreement with Singapore to allow military exercises on Indonesian territory, which raises questions about his nationalist credentials. In addition, he does not say much about economic and political issues other than defense.

He does not even have public views on the COVID-19 pandemic. On the food estate in Central Kalimantan, Prabowo talks quite a lot about agriculture, as he was appointed by President Jokowi as coordinator of the food estate.

Although he has not articulated it yet, for Prabowo, there would not be much different from his platform in the previous presidential elections. He would again talk about building a strong national economy to lead Indonesia into a developed economy. As a former general and minister of defense, of course, he talked more about Indonesia as a strong nation with modern armed forces.

As Prabowo's base of supporters is national wide, as he has been three times in the presidential elections and as a public figure for a long time, his supporters are. However, as he jumped to Jokowi's administration, this upset his supporters, especially among Muslims. He belongs to the older generation, so he is not that popular among the younger voters.

For Ganjar, any policies and activities at the provincial level of Central Java are associated with this effort to increase his electability. Moreover, he is very active in visiting his constituencies and on social media. He also actively participates in national events that are organized in the national as well as in other provinces, such as national sports events and relief for natural disasters.

Ganjar has not articulated much of his platform as a likely presidential candidate. Like Prabowo, and coming from national political parties, Ganjar's rhetoric is for building a strong national economy with an emphasis on "Kementerian" (self-reliance), and also on the standard rhetoric of empowering "wong cilik" (the poor). As a former member of parliament and currently as governor of a politically important province, Ganjar has the capability and a good record as a policymaker in the areas of economic development, employment creation, health, and education that have become the main attention of voters.

Ganjar has strong supporters in Java, especially in Central and East Java. He still has to get support in West Java and outside Java if he wants to be elected as president. He is popular among young voters.

Similar to Ganjar, Anies' policies as governor are very much related to his effort to prop up his electability. He even made decisions that were not in line with the central government, as he consistently showed at the crossroads between Jokowi and PDIP.

For example, in the early stages of the COVID-19 pandemic, he preferred tight limitations on social mobility, even lockdown if necessary, while Jokowi preferred to loosen limitations and anti-lockdown for economic reasons. For the minimum wage in 2022, while the central government decided on only a 1% increase, Anies decided on a 5% increase in Jakarta's minimum wage for a reason that is in line with higher living expenses and economic recovery.

Anies, as he was minister of education under Jokowi's administration and an intellectual himself with a master's in international security and economic policies and a Ph.D. in politics, articulated a lot of his views on the national agenda in the economy, politics, and even social culture. He has been a strong supporter and fighter for democracy, which he started during his student days. He articulated the development of a market-based national economy with a strong equality agenda. He initiated the development of national education with an emphasis on student academic performance as well as labor market readiness. He is the champion of the development of cultural centers that beacon tolerance in society, although he is often criticized as sectarian by his political opponents.

Anies' supporters mainly come from West Java and outside Java. Although he was born and grew up in central Java, more precisely in Yogyakarta, as an Arab of Arab descent, he had to work hard to get acceptance from the Javanese as the major voters to get elected as the president. Like Ganjar, Anies is also popular among young voters and skilled at utilizing social media.

In terms of Puan's role as Chairman of the DPR, she has virtually no legislative initiatives. She just supports whatever laws are being proposed by Jokowi's administration, even the quite controversial ones, such as the omnibus law on job creation and the new capital city, because initially PDIP was reluctant to support them. Regarding her competition with Ganjar for the aspiration to be presidential candidate, Puan and her PDIP supporters always undermine Ganjar's aspiration to be presidential candidate. However, this often results in a disadvantage for Puan herself, as Ganjar is more popular among PDIP constituencies and the general public.

For Airlangga, he is very much a protege of Jokowi. As Chairman of Golkar, he was very instrumental in getting the controversial omnibus law and the law for the new capital city, which is very much Jokowi's legacy, passed by DPR relatively easily and fast. As a coordinating minister, he is implementing what Jokowi would like to do: big spending to overcome the pandemic and economic recovery and to coordinate G20 as Indonesia takes the presidency in 2022. As Chairman of the task force to overcome COVID-19

and economic recovery, he is very much implementing what Jokowi wants: balancing the economy and health, anti-lockdown, and national-wide vaccination.

As Coordinating Minister for the Economy, Chairman of Golkar, and many other positions trusted by President Jokowi, such as Chairman of the Task Force for Economic Recovery and Overcoming COVID-19, and Co-Chairman of the Organizing Committee of the G-20 in Indonesia, Airlangga practically covers a wide range of national policies, not only on the economy, but also on social, political, and even health and education. He is also a former Minister of Industry and the Chairman of the Industry and Trade Commission in Parliament. In addition, he is a successful businessman too. For this reason, he articulates the national agenda at this time and its path to becoming a developed country in what is called the 2045 goal very well. Despite his well-articulated national agenda, this does not correlate to his electability, which is still low. He and Golkar believe that it is only a matter of time before Airlangga achieves proper electability and, as a result, they are steadfast in their support for him as a presidential candidate in 2024.

Other Jokowi ministers have an aspiration to run for president, namely Minister for Tourism Sandiaga Uno and Minister for State-Owned Enterprises (SOEs). Their electability is at mid-level, at around 5%. Sandiaga was the VP candidate, with Prabowo as the presidential candidate, and the transition to Jokowi's administration perplexed their supporters. They make extensive use of their positions as ministers to gain support for their presidential bid. They are also very good at taking advantage of conventional and social media. However, they do not have a political party to support their aspirations as presidential candidates yet. As they are quite successful businessmen, they also use their deep pockets to get political party support. In addition, others have a mid-level of electability in the surveys, such as the Governor of West Java, Ridwan Kamil, and the Chairman of Demokrat, Agus Yudhoyono. However, they are most likely only up to the VP candidate level, where they could potentially team up with a presidential candidate with higher electability.

With so many ministers and governors actively seeking the opportunity to run for president at such a young age, the policies and programs that they develop as much as possible to increase their electability are certainly clogged. This also affects policy coordination among the ministers and governors, as there tends to be more competition than coordination. There are many criticisms of these, but the president and the public, in general, accept this as a part of the democratic process with direct presidential elections.

Conclusions

The presidential election in Indonesia is more about popularity, which translates into electability. Policy platforms and agendas for the nation do not influence voters much in choosing the president. A political party's support is required to get a ticket to be a presidential candidate in a coalition, which at this time is 20% of parliament seats. The political coalition to back a presidential candidate is formed mainly based on the superposition of the interests in party existence and in forming a coalition to support the presidential candidate. Ideology, constituencies, and programs do not matter much in a coalition formation. For access to power and financial gains, the losing members of the coalition can join the ruling party for the sake of access.

For the presidential election of 2024, the bid has come very early. Based on observations and reliable surveys, Prabowo is at the top of electability with around 20%, followed closely by Ganjar, and some distance behind Anies. Prabowo has his own political party, Gerindra, while Ganjar and Anies are not sure yet whether any coalition of political parties would give them a ticket for the presidential election. Leaders of political parties, especially Puan (PDIP) and Airlangga (Golkar), are kept on the list, although their electability is quite low. If necessary, Puan and Airlangga could switch to vice presidential candidates. The contest for the presidency has a lot to do with popularity and electability, and not much with vision and programs.

All the potential presidential candidates have important public positions, such as minister and governor, that certainly have policy implications. As for the current ministers, their policies and programs tend to support their popularity. It is a similar case for them to the current governors, who implement policies and programs to increase their popularity in their province. However, President Jokowi does not mind his ministers, and governors have started positioning themselves for an early bid for the presidency. Even though policies and programs in their capacity as public officials are certainly influenced by their effort to gain popularity and electability.

The Habibie Center Quarterly on Indonesia Post-COVID-19 Readiness: Fairly Strong Economic Recovery



Umar Juoro is a Chairman of Institute for Democracy, Economics, and Ecology at The Habibie Center

Abstract

High commodity prices drive Indonesia's economic recovery in the post-COVID-19 pandemic. The high commodity prices, especially coal and Crude Palm Oil (CPO), give not only a high trade surplus but also higher government revenue. The mining sector grew by 4% in 2021, which contributed to the economic growth of 5% in the fourth quarter and 3.7% in 2021. Consumption is recovering as COVID-19 is subsidized, although the Omicron variant, a more contagious but less fatal, spread, consumer confidence is at a high level.

High Commodity Price

High commodity prices, especially coal and CPO, drive economic recovery from the pandemic era. Coal price increase up to above USD 300 per ton in April 2022, that gives a lot of benefits not only to producers but also to the government revenue. Moreover, CPO prices also increased up to MYR 6,183 per ton in April 2022, the highest since 1980. Oil prices increased significantly up to around USD 108 per barrel in April 2022. Although Indonesia is a net oil importer, the revenue from oil and gas is still very significant. The government's tax revenue increases by 37.7% in February 2022, which helps to lessen the budget deficit.

However, the high price of coal creates problems for the National Electrical Company (PLN), as the domestic market obligation for 25% of coal production and price cap of USD 70 per ton is not observed by the producers. PLN has difficulty getting coal supply. For that reason, the Ministry of Energy and the Ministry of Trade banned coal export for some time. As a response, the Coordinating Minister for Energy re-opened the coal export, attributable to the strong coal lobby and not compromising the government revenue.

The high increase in the coal price has another implication for the government's plan to reduce carbon emissions. The government plans to phase out the use of coal in 2040, but with the lucrative coal business for private and government revenue, it will be difficult to develop renewable energies, not to mention the strength of the coal lobby that is politically very influential. Therefore, it is almost certain that the call for coal phase-out would not be achieved.

As the price of energy increases, not only coal but also oil and gas, the government faces difficulties in stabilizing the price and managing the subsidy domestically. Energy subsidies increased significantly up to Rp 142 trillion in 2021, and the 2022 energy subsidies are set at 134 trillion, where Rp 56.5 trillion is set for electricity subsidy. Moreover, the state oil company is reluctant to increase the fuel price under pressure from the government. Thus, with the oil price reaching above USD 100 per barrel, it is likely that energy subsidy would be much higher than what was budgeted.

The high CPO price also creates problems, including a lack of domestic supply and the high price of cooking oil in the market. The Ministry of Trade and Coordinating Ministry for Economy took the initiative to intervene in the price of cooking oil and gave subsidies to lower-income groups by using the fund accumulated by the CPO producers. CPO export is limited to certain producers who have export licenses and fulfill domestic market obligations. However, this intervention is far from effective in practice.

In practice, the haphazard plan to put commodity export to a halt for the reasons of domestic needs and downstream processing does not support the economy. On paper, downstream processing of commodities supposedly gives a lot of benefits to the economy, and yet, it was proven otherwise. Competition with other manufacturers, especially those from China, is tough in terms of efficiency and price. The low capacity of domestic processing in the face of fluctuations in raw material prices is also an important factor in being able to compete. However, the political will to develop domestic processing is very strong. For this reason, it would be wise to focus on certain materials to be processed domestically, and learn from the successes and failures along the way. Unlike the call for the president to ban the export of all minerals and process them domestically, which is costly for the economy, it should be just certain mineral that Indonesia is capable and competitive enough to process domestically, such as bauxite.

Consumption is Recovering

Consumption growth in the 4th quarter was 3.5% and in 2021 was 2%, with household consumption for food as the main contributor. Meanwhile, the food and beverage sector are still in the recovery process as it took a hard hit during the social limitations. Durable consumptions, mainly houses and vehicles, grow strong. The tax facility, as part of the stimulus package, supports house and car sales. Moreover, credit growth for consumption is the highest at around 5%. The mortgage growth was high at around 10% in February 2022. The Consumer Confidence Index was relatively high at 111 in March 2022. Meanwhile, the growth of the third-party fund was still high at 11% February 2022. This means people, especially the higher income group, still have a lot of saving and plenty of liquidity in the financial market.

Since the beginning of the economic crisis caused by the pandemic, the government rightly prioritized maintaining consumption, especially for lower-income groups. Programs for social assistance (Bansos), basic food allocation and cash transfer for lower-income groups, VAT for car loans, and mortgages for higher-income groups can sustain consumption to positive growth.

However, the global supply chain issues still hinder the demand recovery, which has been affecting not only Indonesia but also other countries. Although inflation is still relatively low at around 2%, the price of food has been showing an increase. The government curbed the higher price of cooking oil through direct intervention. The government is also trying to prevent energy prices from rising significantly while maintaining the price of coal for domestic market bonds and fuel subsidies. With the core inflation rises, as an indication of a higher money supply at around 12%, Indonesia would not be immune from high inflation as other countries. The impact on the consumer would be significant, but consumption growth looks strong in this stage of economic recovery.

Investment's Contribution to the Growth

Investment grew at 4.5% in the 4th quarter and 3.8% in 2021. The aggressive investment promotions have been able to attract investors in manufacturing, especially from Korea for electric car and the batteries and from China for smelter to process minerals. Term (investment loan) has been growing at 5.5 % in February 2022 and will likely to grow higher as the economic recovery continues. Term loan for manufacturing, especially CPO and its product, and also for coal mining take significant part.

The bank has started to increase loan allocation with growth at 5.5%, not only for consumer credit which grows at 5% but also for working capital and term (investment) loans which increased to 7% for working capital and 3.2% for a term loan. Banks continue to see better opportunities for higher credit growth. State Owned Enterprises (SOEs) banks lead the way with credit growth at around 8-10%.

President Jokowi has been actively pushing to attract Foreign Direct Investment inflows, especially in processing minerals, electric vehicles, and batteries investments. He believes that downstream mineral processing gives a lot of value-added to the economy. Tax incentives, special economic zone, and industrial areas are provided by the government. Along with the mineral export ban, it is expected that FDI would come from processing industries. So far, SOEs and Chinese companies are interested in investing in processing. However, the large mining companies that are required to build processing plants are very reluctant because it is not their expertise. In addition, the investment is big and faces tough competition, especially in China. For electric vehicles and batteries, besides Chinese investors, Korean investors are interested. Meanwhile, the Japanese are not that interested because they are currently focusing on hybrids instead of full-electric.

The implementation of the Omnibus Law is expected to boost investment in a big way. The response from investors, in general, is positive. However, with the decision of the Constitutional Court for the government and parliament to revise the law that should be in line with the constitution in 2 years, it has created a question of how effective the Omnibus Law is in facilitating the investment.

Recovery of Manufacturing and Trade

Manufacturing growth was 4.9% in the 4th quarter and 3.4% in 2021. As the COVID-19 pandemic is subsided and less fatality rate from the rise of the Omicron variant, the manufacturing sector continues to show strong recovery with PMI (Producer Manufacturing Index) at 51.3 in March 2022. In the manufacturing sector, food and beverages, chemicals and metal industries have experienced high growth and will potentially grow higher along with the increasing of the demand. However, similar to other countries, the manufacturing sector in Indonesia also faces problem of the supply chain disruption that push the cost and discourage for higher manufacturing growth.

In the vehicle industry, actually, the original policy is to develop hybrid car. This policy gets support from car manufacturer, especially the Japanese. However, the policy has been changed into development of electric car as this is the global trend for environmentally friendly vehicles. For this reason, the Japanese manufacturers are unhappy and they are not participating in the development of electric vehicles in Indonesia. Meanwhile, in response to the problem of unavailability of electric charge station for electric car, PLN rushed to build charging stations, although these are only limited in Jakarta.

The export ban on minerals for domestic processing manufacturing is politically applauded but economically unsound. Indonesia always wants to develop manufacturing that processes minerals for higher value-added. The experience of aluminum processing, chemical industries, and steel industries, show that although the industries can develop and function well, they are not economically competitive, which created huge losses and is difficult to sustain. Not to mention mismanagement and corruption that get involved, especially in SOEs, to disrupt what is supposed to be a good plan. Focus on certain industries and companies to get proper lessons learned should be the way in taking a risk for the domestic processing industry.

Trade growth was 5.6% in the 4th quarter and 4.6% in 2021. Both foreign and domestic trades show strong recovery, with export mainly supported by coal and CPO. Import also shows healthy growth with the increase of capital goods import to support domestic production. Moreover, Indonesia experienced a trade surplus of USD 35.3 billion in 2021, which is the highest in the last five years.

Indonesia is working to deal with the protectionism policy of the European Union (EU) for CPO concerning environmental reasons, as the EU is the main market for CPO. Even the president himself instructed the minister to deal with this issue. Also similar to the protest of the EU registered at WTO on Nickel export banned. The president also gave instructions to continue with the export amidst the EU protest.

Domestic trade also shows a strong recovery with growth at a 6% rate, which is in line with the consumption growth. Wholesale and retail trade recover quite nicely. The high growth of e-commerce contributes to the recovery of the trade sector, although the percentage is still around 20% of total trade. Furthermore, the high price of CPO has serious implications for cooking oil supply and price domestically. The price increased significantly by around 10%, while supply was disrupted which led to strong criticism of the government and the conglomerate that dominates CPO and cooking oil production. The government raises the percentage of domestic market obligation for CPOs to 30%.

However, this measure has not been able to stabilize the price of domestic supply for cooking oil. The price of imported soybean also increased significantly, which also drew criticism to the government as they are not able to stabilize the price for small producers of tofu.

Maintaining Continuation of Recovery

With the pandemic subsidized and transformed into an endemic, Indonesia's economy is recovering quite strongly. It is expected that economic growth in 2022 will be more than 5%. Consumption and investment are expected to pull the economy into the trajectory path. The expectation of inflation and the recent Russia-Ukraine war can disrupt the economic recovery, but optimism for the continuation of recovery remains strong.

On the fiscal policy side, the Ministry of Finance is pleased with an increase in the tax revenue that exceeded the target, where high commodity prices became the main contribution. The budget deficit was recorded at 4.65% of gross domestic product (GDP) last year, better than the expectation of 5.7% of GDP. Furthermore, it is expected that the budget deficit will be lower than - 4.8% of GDP in 2022. Thus, the target for a budget deficit below 3% of GDP in 2023 will probably be achieved. The challenge is that the subsidy is ballooning with high oil, gas, and coal prices as the main energy sources. For budget stability, there is no way subsidies have to be cut. This certainly becomes a controversial political decision, as the public opposes the subsidy cut for fuel and electricity. Tax incentives should also be reduced as the economy is recovering.

On the monetary side, Bank Indonesia (BI) still keeps the policy rate at 3.5%, mainly because inflation is still low at 2.6% in March 2022. With likely food and energy prices to increase, also expecting the Fed will increase the interest rate, BI has also to prepare to increase the policy rate. If the Fed increases the interest rate in March, BI would likely increase the policy rate not long after that. If the Fed increases the interest rate three times this year, BI is likely to increase the policy rate twice. Inflation is likely at around 4% this year, considering the increase in food and energy prices.

Financial stability is in good condition, with credit growth at 6.3 % (in February 2022) and likely to increase around 7% this year. This is in line with the economic growth projection of more than 5%. Working capital leads the way with growth of around 7%. Consumption credit grew at around 7.3%, while corporate credit grew at 5.9%. Non-Performing Loan (NPL) is stable at around 3.1%. This is supported by the relaxation of credit restructuring under the OJK (Financial Services Authority) rule that extended to

March 2023. The president even suggested that the relaxation of credit restructuring should be extended, and OJK is considered. Currently, around Rp 600 trillion credit is under restructuring, down from around Rp 900 trillion in 2021.

Sectoral policies, especially in the manufacturing, trade, agriculture, and mining sectors, are in good coordination. The issue of synergizing between open economic policies and inward-looking, especially across the board of mineral processing, needs refinement. Inward-looking policies to pick the industry winner often fail, as Indonesia has experienced. However, the political will to pursue the policy cannot be ignored. Narrowing and tight focus for just a few processing industries would make coordination easier and get lessons learned from the implementation of the policy.

Unemployment is declining to the level of 6.3% and is likely to fall as the economy recovered. Manufacturing and services are the main employment creation in the formal sector. The poverty level also decreased to the level of 9.7%. With aggressive policy programs by the government, the poverty level is likely to go down.

Overall, the economy is in good condition. The process of recovery is continued in a sustainable way toward the growth trend. From the demand side, the importance of consumption and investment show quite strong in recovery. The high export of commodities, especially CPO and coal, contribute to the trade surplus that has been continued since May 2020. The challenges are high inflation in many countries make the Fed increase interest rate that have an impact to capital outflow and currency depreciation. In addition, the Russia-Ukraine War pushes higher oil-gas and food prices significantly. On one side, as the producer of oil and gas and minerals, Indonesia is benefitted from the high price. But the consumers experience the pinch of the high price of oil and gas. Nevertheless, with the appropriate monetary and fiscal policies and continuing to improve the investment environment, the momentum for economic recovery can continue to in sustainable way. Of course, BI has to increase the policy rate to respond the inflation expectation. In addition, fuel and electricity prices have to be adjusted to manage the energy subsidy under control. To assist the low incomes group from the impact of higher prices, the social programs, such as cash transfers, support for basic foods have to be extended with better management.

About The Habibie Center

The Habibie Center was founded by Bacharuddin Jusuf Habibie and family in 1999 as an independent, non-government, non-profit organisation. The vision of The Habibie Center is to create a structurally democratic society founded on the morality and integrity of cultural and religious values. The mission of The Habibie Center are first, to establish a structurally and culturally democratic society that recognizes, respects, and promotes human rights by undertaking study and advocacy of issues related to democratization and human rights, and second, to increase the effectiveness of the management of human resources and the spread of technology.

The Habibie Center

Jl. Kemang Selatan No. 98, Jakarta - Indonesia 12560

Tel: 62 21 781 7211 | Fax: 62 21 781 7212

thc@habibiecenter.or.id | www.habibiecenter.or.id