

# Indonesian economy contracts for first time in over two decades

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11 August 2020

As a result of the global coronavirus pandemic, Indonesia's economy has suffered its first contraction in more than two decades. The steep decline in economic activity this year has had an impact far greater than previously anticipated, with the threat of recession looming.

Indonesia, Southeast Asia's largest economy, saw its gross domestic product (GDP) shrink by 5.3 percent year-on-year in the second quarter, according to data from Statistics Indonesia released last Wednesday. The country's last contraction occurred in the first quarter of 1999, at the tail-end of the Asian financial crisis.

Over the course of the 2000s, economic growth recovered from that economic shock and accelerated to over 6 percent, with Indonesia becoming the fastest-growing economy in the region outside China. Since 2012, however, annual GDP growth has decreased to around 5 percent.

After President Joko Widodo assumed office in 2014, his administration took measures to ease regulations for foreign direct investment, in an effort to stimulate a slowing economy. Even before the pandemic struck, the government was confronting mounting problems, including a weakening currency, decreasing exports, and stagnating consumer spending.

The partial lockdown imposed in April dealt major blows to manufacturing and retail sales. The economy, having grown in the first quarter by almost 3 percent, was expected to shrink 4.6 percent in the April-June quarter, according to a Reuters poll of analysts.

The broad scope of the pandemic impact was also unforeseen, with businesses delaying investments and households curbing spending. Exports were also hit by lower global demand and commodity prices. Indonesian shares responded negatively to Wednesday's released data, with the benchmark stock

index slipping nearly 0.3 percent.

The government has attempted to counteract the pandemic's impact with a fiscal stimulus in which thus far has amounted to \$US48 billion. However, experts are suggesting the GDP will likely contract again in the third quarter, albeit at a slower rate, putting the economy formally in recession. Anwita Basu of Fitch Solutions, in comments to the *Australian Financial Review*, predicted a 4.5 percent contraction.

Amid warnings that Indonesia's recovery could be the slowest in Southeast Asia, the finance ministry projected that the economy could shrink by 0.4 percent for the full year. The World Bank has predicted a far worse outcome: output could contract by as much as 3.5 per cent in 2020, a disastrous result for an emerging economy.

The government this month unveiled a \$US40 billion debt monetisation scheme. Bank of Indonesia, the nation's central bank, pledged to buy \$US28 billion of government bonds while relinquishing interest payments. The bank has cut its key interest rates four times this year by a total of 100 basis points, in a drastic bid to promote economic growth.

Despite these measures, economists are urging Widodo's government to further ramp up state spending to prevent a recession. "The economic performance will depend heavily on whether the government can accelerate spending to jack up growth," Bank Central Asia economist David Sumual told the *Jakarta Post* last week Wednesday.

At the outset of the global downturn in March, Widodo announced a regulation that would waive a cap on a maximum budget deficit for three years. This allowed Bank of Indonesia extraordinary powers to funnel huge sums of money into the financial sector. Following this aggressive intervention came a

protracted series of stimulus packages, directed almost exclusively at bailing out the corporations and amounting to 15.7 percent of the total budget.

The government's relentless drive to resume production, even as the pandemic ravages the population, is an expression of its desperation to prevent a liquidity crisis and economic collapse. In fact, its response to the pandemic, from the beginning, has been motivated solely by a concern over its impact on corporate profits.

The belated implementation of limited lockdown measures in April brought production across a range of industries to a grinding halt. These were largely confined to the capital city Jakarta, where the transnational corporations are largely based.

In early June, authorities began to ease restrictions and force workers to return to their jobs, hoping to stir production back to life. The attempted reopening, however, has aggravated the spread of the virus, now present in all 34 provinces. Reluctantly, the government has extended movement restrictions in virus hotspots until August 13.

With thousands of new cases discovered each day, the infection tally has grown to 118,753 nationwide. In an article in the *Sydney Morning Herald* last week, two of the country's leading epidemiologists agreed that the actual number of cases could have already topped one million, or nearly 10 times the official figure. This would place Indonesia at fourth position in the world's coronavirus rankings.

The official death toll of 5,521 deaths also grossly underrepresents the actual devastation of the virus. Last month, national coronavirus watchdog Kawal COVID-19 showed that there were at least another 7,360 deaths among suspected patients, who died before being tested.

Health care in Indonesia faces imminent collapse as hospitals fill up across the archipelago. With scarce resources in protective equipment, testing facilities, and even staff, the medical system has been criminally neglected, even while funds are endlessly rolled out to big business to prop up the failing stock markets.

Meanwhile, the government is pressing ahead with economic reopening. Late last month, the national coronavirus taskforce was replaced by a COVID-19 Mitigation and Economic Recovery Committee, consisting mostly of financial ministers, headed by

billionaire media tycoon and State-Owned Enterprises Minister Erick Thohir. The decision was widely regarded by commentators as a further shift in priorities towards economic recovery despite the ongoing public health catastrophe.

The revival of the tourism industry, a critical source of GDP, is proceeding at a frantic pace. Initiatives include the reopening of Bali to international tourists next month, the redevelopment of villages around Lake Toba, and the building of port infrastructure in Padang, West Sumatra.

This is entirely in keeping with the pro-business character of Widodo's government. Following last year's election victory, he embarked upon policies including tax breaks for the wealthy and international investors, privatisation of water supplies, further undermining of environment regulations, and tighter limitations on the state's anti-corruption body.

The economic crisis triggered by the pandemic will have an immense social impact, creating the conditions for social upheavals. Around 3.7 million workers have lost their jobs so far this year, according to the National Development Planning Agency, with the number expected to hit 10 million by the end of the year. Although millions of workers now face the prospect of poverty and hunger, social welfare packages have been slow and totally inadequate.

The Indonesian ruling class is keenly aware of the pandemic's social consequences. Confronted with mass student protests and mounting unrest last October, Widodo selected a number of military figures and Suharto-era generals for his incoming national cabinet. In March, when widespread opposition to his pandemic response first emerged, Widodo said the government was prepared to impose martial law.



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