

## **Indonesia**

### ***Response to the crisis***

Compared to the Asian crisis in 1997-98 Indonesia's economy has remained relatively stable in this crisis. This can be attributed partly to the post-Asian crisis reforms, which have reduced Indonesia's vulnerability to market turmoil. For instance, the ratio of short-term loans to foreign reserves was 175 per cent in 1997; today, it is approximately 35 per cent. Therefore, even as the US and Japan slide into deepening recessions, Indonesia's US\$433 billion economy has expanded by 6.3 per cent on average over the past two years and is expected to grow by about 4 per cent in 2009, which is nonetheless an eight-year low.

In the midst of the current crisis, Indonesia's government declared its commitment to fully implementing the Social Security System (SJSN) Law of 2004. This shows the governments' determination to fight the crisis and protect people. However, the greatest challenge is still to provide coverage for the workers in Indonesia's informal economy – about 60 million individuals. Here, crisis response in the field of social security has lacked focus so far.

### ***Impact of the crisis***

As mentioned above, the fallout from the current economic crisis is not as bad in Indonesia as in some other countries. Nevertheless, the global downturn is affecting the country's economy on all fronts, from weakening demand for exports and slowing down flows of investment, to reducing consumer purchasing power. The export sector and commodity extracting industries are especially badly hit. As these industries are important for the Indonesian economy the falling demand for rubber for the automobile industry comes as a blow, for instance. Exports fell by 20 per cent year-on-year in December 2008, and are expected to contract further in 2009 because of the economic downswing of Indonesia's trade partners. A slowdown of the inflation rate to 5-6 per cent by August 2009 was forecast by the Indonesian Finance Ministry in February 2009. Consumer prices rose by 9.2 per cent year-on-year in January 2009.

### ***Impact on and challenges to social security systems***

All of these factors affect employment negatively. While economists estimate that in order to create ample jobs for Indonesian school leavers a growth rate of 6 per cent needs to be maintained, the actual growth rate is expected to drop to 4 per cent. Unemployment could go up from the current 8.5 per cent to 10 per cent by the end of 2009. By January 2009, export-oriented industries had laid off 24,790 workers and were planning to lay off another 25,000 in the months to come. Next to the problem of growing unemployment, Indonesia generally faces high poverty rates, which leave the country's economy and people vulnerable to fallout from economic crises.

### ***The Indonesian crisis responses in general***

To tackle this problem, the Indonesian government announced a stimulus package of 73.3 trillion rupees (Rp) for 2009 earlier this year. The originally foreseen Rp 10.2 trillion for infrastructure projects and empowerment programmes for people living in rural areas have been supplemented by additional Rp 2 trillion for employment-intensive infrastructure projects. Although the stimulus will

partly be financed through unused funds from last year's budget, it is expected to push the 2009 budget deficit up to Rp 139.5 trillion (US\$11.62 billion), or 2.5 per cent of GDP. Indonesia secured emergency loans worth US\$5 billion at the end of 2008 from the World Bank, the Asian Development Bank, Japan, Australia and France.

One part of the stimulus plan is Rp 56.3 trillion tax reductions. One of the aims of reducing taxes is to ease the burden of low- to mid-income workers. Workers with a monthly income of less than Rp 5 million will receive a tax cut, and in addition corporate and value-added taxes will be reduced.

The Finance Minister said about the stimulus package that "[it] is everything that cuts costs borne by businesses and the people", when asked why the stimulus was not fully designed to support businesses. The package aims to increase people's purchasing power, and the competitiveness and sturdiness of businesses facing the economic downturn.

### ***Stimulation of domestic demand***

Domestic demand represents almost 70 per cent of Indonesia's economy, and, as exports are declining, the government's policy is to focus on internal demand. In addition, Indonesia's central bank has taken measures to strengthen the Indonesian banking sector, including the necessary liquidity management, and is easing credit costs to prompt consumers and companies to borrow and help revive economic growth. The low inflation forecasts (tending to be below 5 per cent) and a stable currency should help increase purchasing power.

In May 2009 Indonesia's central bank reduced its benchmark interest rate by 25 basis points to 7.25 per cent. This is the reserve bank's sixth consecutive monthly cut, and brought the prime lending rate to its lowest level since July 2005. A half-point cut is an important signal to the banking sector to ease borrowing costs in order to stimulate domestic business activities. According to the central bank, the global economy may continue to contract although at a slower pace. This improved global economic environment has supported the return of capital to emerging markets, including Indonesia, and led to a strengthening of the rupiah, as well as to rising composite index prices. Also, the economic stimulus measures in Japan and China are said to have a positive effect on the demand for coal, nickel and other Indonesian resources.

### ***Social security and the crisis in Indonesia***

In response to the current financial crisis and the resulting pressure on employment, the Indonesian government is determined to fully implement the Social Security System (SJSN) Law of 2004, which calls for universal social security coverage in both the formal and the informal economy in Indonesia, before the set deadline of 2009. Indonesia already has several public occupational pension schemes. These are: PT Taspen (for civil servants); PT Jamsostek (for private employees); and PT Asabri (for security and armed forces). In addition, privately managed funds (voluntary schemes), employer pension funds and financial institution pension funds exist. These schemes' coverage is limited, however: Of all formal-sector workers, who have better access to the schemes, only 46 per cent are covered by one of the three existing public pension schemes.

Also, in 2007 the number of informal workers throughout the country reached 66 million, more than twice that of formal workers, at some 31 million. Because of the complexity of the informal economy

and the enormous budget required, the extension of coverage to informal workers is difficult to implement in Indonesia's current economic situation.

Since the endorsement of the 2004 law on the national social security system, however, the state-owned labor insurance firm PT Jamsostek is no longer exclusively reserved for formal sector workers. The law stipulates that the company's insurance programme must cover all workers, regardless of their sector. Jamsostek is set to expand its membership among "high-potential" workers in the informal sector, departing from its traditional focus on formal-sector workers. The company aimed to insure 280,000 new members from the informal sector in 2008 (compared to a mere 84,729 in 2007), and also set a target of gaining 2.5 million new formal sector members in 2008. Meanwhile, problems linked to the payment of premiums regarding the enrolment of informal workers remain.

As a response to the crisis, newly unemployed workers will be able to draw on their PT Jamostek accounts already after one month, while the waiting period so far has been six months. While the commitment of the government is remarkable, the impact of this project remains to be seen.

Next to the efforts listed above, the government has decided to shore up its public employment scheme and will channel an additional Rp 6.6 trillion through the Ministry of Public Works. The budget of the Ministry of Health was increased by Rp 150 billion, and Ministry of Manpower and Transmigration funds will be devoted to training for the unemployed.

The main efforts of Indonesia's government that are meant to provide support to the poor are outside the social security system. They include increased funds for subsidized rice, cooking oil and diesel fuel. These programmes have been criticized in the past for targeting which often does not reach the poor.

The single most expensive measure of the Indonesian government aimed to support the poor is a one-time payment of Rp 200,000 per poor household. Claimants of this sum have to be listed as poor and be able identify themselves with a valid ID to be eligible.

## ***Conclusions***

There is no data currently available on the exact government spending on social security in response to the global crisis from official Indonesian sources. Nevertheless, the commitment to the full implementation of the Social Security System (SJSN) Law of 2004 shows the government's determination to fight the crisis and protect people. Covering the uncovered workers in Indonesia's informal economy involves extending the constitutional right to social protection to 60 million workers, and this obviously is the greatest challenge for the country's social security system. Apart from fulfilling these workers' constitutional rights, such a feat will make a huge and concrete difference in their lives. As this may not be realized in the short term, coherent and comprehensive policies are required in order to prioritize social insurance access for certain types of informal sector work.

## ***References***

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