ICCC Webinar

Financial and Health Management in Covid-19 Era

25 September 2020

Danamon

Wisnu Wardana
Economist
wisnu.wardana@danamon.co.id

Executive Summary

In 2020, the Covid-19 pandemic has become an indiscriminate disrupter of economies worldwide. Financial market volatility was led by flight to quality, causing a temporary crunch in global liquidity. Economic activity was brought to a virtual standstill, raising fear of recession along with its political and social consequences. It is under these circumstances that policymakers of the world launched an unprecedented and coordinated stimulus, in hope to relieve some of the pressure. Specifically for Indonesia, the highlight that had happened and possibilities yet to come, are as follow:

- On FX market; the fundamental of Rupiah has recently stabilized, notwithstanding support from massive Quantitative Easing by global central banks. Merchandise trade surplus reached USD11.0bn year-to-date as import demand, and thus FX needs, declined significantly. Reductions in FDI and share of foreign investment in LCY securities were countermanded with USD7.5bn worth of external corporate bond issuances, pushing the can towards medium-run. On the flip side, domestic portfolio investors stepped up and peddled through, which may have an adverse effect when real sector activity starts to recover. Something to look forward to, at this point.

- On Interest Rate; aside from utilizing its traditional monetary tools of lowering policy rates and reserve requirement ratio, Bank Indonesia also tapped into unconventional methods of Quantitative Easing, with a customized burden sharing scheme. It is worth mentioning that the central bank had properly address their first-aid measure vis-à-vis guaranteeing sufficient liquidity, while minimizing the contagion recourse to financial sector. However, further stimuli seem rather limited henceforth and would require low inflation as well as solid fundamentals of Rupiah. A luxury thing to have at the wake of cost-push inflation environment.

- Possible Implications; as the divergence between real sector economy and financial market widens, it has become imperative to address income equality. Only 40% of the population has bank accounts whilst 0.4% of account holders manage 2/3 of total deposit. Moreover, only 1% of the population has access to capital market. These are the ones that would benefit.