



Monthly Newsletter

Policy Information and Analysis Agency (BAIK)

**Indonesian Chamber of Commerce and
Industry (KADIN)**

**Published by Policy Information and Analysis Agency
KADIN Indonesia**

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INDONESIAN NARRATIVE SEPTEMBER 2024 EDITION



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1	Health: Government Tightens Health Checks at Entry Points to Prevent Mpox Transmission in Indonesia
2	ECONOMY: Potential for Slowing Economic Growth as the Middle-Class Declines
3	Entrepreneurship & MSMEs: Government Encourages Exports to Non-Traditional Countries, Especially the African Region Through LPEI
4	About KADIN Indonesia: Indonesia International Sustainability Forum 2024

1 Health: Government Tightens Health Checks at Entry Points to Prevent Mpox Transmission in Indonesia



Insight

To prevent the transmission of Mpox and its new variants to Indonesia, the government has tightened health checks at the country's entrance points, especially airports, for travelers from abroad. Every international traveler who enter Indonesia, both Indonesian and foreigners, is required to fill out an electronic self-declaration form called SATUSEHAT Health Pass.

The Mpox Clade Ib virus has a higher severity and faster transmission, including against children. The World Health Organization (WHO) has designated Mpox as a public health emergency of international concern.

However, until September 2, 2024, the founder of the Indonesia Inbound Tour Operator Association (IINTOA) stated that no international tourists have canceled trips to Indonesia since the outbreak of Monkeypox (Mpox).



2 ECONOMY: Potential for Slowing Economic Growth as the Middle-Class Declines



Insight

Within the last five years, the number of middle class in Indonesia has dropped to 9.48 million people. In 2019, the number of Indonesia's middle class reached 57.33 million people or 21.45 percent of the total population. By the end of 2024, the number is expected to decrease to 47.85 million people or only 17.13 percent of the total population (BPS, August 2024)

The middle class has an important role to support economic growth. The middle group and aspiring middle class have a combined role of up to 81.49% in public consumption. They contribute 38.28% and 43.21% respectively, to Indonesia's population expenditure in 2024.

Several sectors that might be affected by the decline of the middle class include finance, property, automotive, tourism, and retail, which have been the main contributors to national economic growth. Looking back, the percentage of the middle-class group reached 23% between 2014 to 2023. In fact, the growth of middle-class households' consumption throughout 2018 reached 5.05%. However, in 2023, the middle-class group will only be around 18% and the realization of their household consumption growth throughout 2023 will only reach 4.82%.





Insight

The government, through the Indonesia Export Financing Institution (LPEI)/Indonesia Eximbank, encourages export activities through the provision of Regional Special Export Assignment (PKE) facilities. This aims to provide financing for transactions or projects that are commercially difficult to realize but are seen as strategic by the government in supporting national export policies.

LPEI not only plays a role in increasing the competitiveness of Indonesia's products in the growing African market, but also provides protection to exporters from various risks related to international trade. Some of the projects that have been facilitated by LPEI through the Regional PKE program in Africa were the financing of CN-235 aircraft export to Senegal, financed the construction of 3,950 units of Social Houses in Algeria by PT Wijaya Karya, exports of cement and clinker to East Africa, and exports of canned fish (sardines, mackerel, and tuna) to Nigeria and Ghana in West Africa.

The Regional PKE covers export financing for exporters focusing on countries in Africa, South Asia, and the Middle East, except for countries with special warning. LPEI shows its commitment to supporting the increase in Indonesia's exports of products and commodities by playing an active role in supporting 84 Indonesia exporters to penetrate the market of 49 countries in Africa. Indonesia's five largest export commodities to Africa include animal and vegetable oils, paper and paper products, soap and cleaning agents, automotive and automotive components, and electrical equipment.





Insight

The Coordinating Ministry for Maritime Affairs and Investment together with KADIN Indonesia have organized the Indonesian International Sustainability Forum (ISF) 2024 to encourage international collaboration and share best practices in decarbonization to strengthen global efforts towards sustainable development.

The meeting, which was held on September 5-6, 2024, resulted in the signing of 14 Memorandums of Understanding (MoU) in important areas such as cross-border electricity interconnection, carbon capture, acceleration of the energy transition, and green transition in transportation. Collaborative solutions from ISF 2024 can bridge the sustainable financing gap and enable the implementation of sustainable business practices, especially in terms of their funding.

The results of ISF 2024 will support one of the strategic commitments from the government, namely comprehensive mapping of all sectors to achieve the net zero emission target. KADIN Indonesia's support in bridging the sustainable funding gap will be a strong foundation for the government when formulating policies and strategies that are right on target. Through the mapping which has been aligned with the RPJMN, the government can identify investment opportunities in the clean energy sector, encourage technological innovation, and create new jobs.





CORE ISSUES

1

The Decline of the Middle-Class and its Impact on Entrepreneurs

2

The Impact of the Fed's Interest Rate Cut on Indonesia



The Decline of the Middle-Class and Its Impact on Entrepreneurs



The LPEM FEB UI report states that **middle-class in Indonesia has decreased.**

The middle-class plays an important role in state revenues, accounting for 50.7% of tax revenue.

Meanwhile, aspiring middle-class accounting for 34.5%.

The contribution of the middle-class to tax revenue is **critical to fund public development programs, including infrastructure and human capital investments.**

- ❖ The Indonesian Statistics noted that the middle-class had once reached 57.33 million in 2019. This number keeps dwindling within the last five years, to 47.85 million in 2024, or decreasing 9.48 million people.
- ❖ According to the Indonesian Statistics, the main cause of the decline middle-class's economic status is lower quality job **creation**, which **is more towards in the informal sector** lately, and **other sectors with minimal productivity**. Other reasons are the economic impact of Covid-19 which still affects people's finances today, price increase of staple foods, high interest rates, the weakening of the rupiah exchange rate, and increasing inflation.
- ❖ This population decline trend also **impact the retail spending trend of the middle class. middle-class people are holding back their shopping in Indonesia and prefer to shop abroad**. This is because imported goods in Indonesia are priced too high.
- ❖ Currently, **more than half of middle-class workers are in the low value-added services sector**. Despite decreasing significantly in the last 10 years, most of the middle class who have left the low-value-added services sector have instead entered another sector with a low level of productivity, namely agriculture.

NEXT AGENDA

- ❖ To achieve **the ambitious goal of becoming a developed country by 2045**, government policies must focus on helping aspiring middle-class transition while maintaining the purchasing power of the existing middle class.

The Impact of the Fed's Interest Rate Cut on Indonesia

The Federal Reserve (The Fed) **cut interest rates by 0.5%.**

This was driven by decrease in **inflation** and the improvement in **labor** market in the United States (US).

- ❖ The US Federal Reserve (The Fed) cut their interest rate by 0.5% or 50 base points in mid-September 2024.
- ❖ So far, the interest rate has been set high in the range of 5.25-5.50% to address inflation problem.
- ❖ Currently, US inflation is much lower than its peak in mid-2022 of around 7%. In July 2024, US inflation is only recorded at 2.9%.
- ❖ The period of September to December 2024 is a potential time for the Fed to lower interest rates. This interest rate cut will be done several times.
- ❖ The first interest rate cut was made on September 17-18.
- ❖ It is estimated that interest rates will be cut down to 4.50-4.75% by the end of 2024, and will be cut again to 3.00-3.25% by the end of 2025.

Impact on Indonesia:

- ❖ An increased flow of foreign investment because investors are looking for higher returns from developing countries with higher interest rates such as Indonesia.
- ❖ Strengthening the rupiah exchange rate against the US dollar.
- ❖ For entrepreneurs with loans in US dollars, the Fed's interest rate cuts can reduce their interest burden.

Looking Forward:

- ❖ The Bank of Indonesia needs to adjust or lower their interest rate if the Fed's interest rate decision is lowered again, which will impact on reduced banking interest rates.

ABOUT INDONESIA

1	Health
2	Education
3	Technology
4	MSMEs
5	Sustainability
6	Food Security and Agriculture
7	Logistics & Supply Chain
8	Maritime Economy
9	Energy Resilience
10	Others



Health

The Ministry of Finance has set a new tariff for government-owned hospital services under the auspices of the Ministry of Health starting September 2024. The regulation is included in the PMK No.54/2024 on Service Rates of Hospital Public Service Agencies at the Ministry of Health in addition to the *Indonesian Case-Based Groups* tariff which was promulgated on August 27, 2024.

Adjustment of hospital service rates will not affect BPJS Kesehatan patients. The BPJS Kesehatan patient hospital service rate still refers to the Indonesian *Case-Based Groups* (INA-CBG's) rate. Conversely, the determination of 54/PMK.05/2024 provides a legal umbrella for the Hospital Public Service Agency (BLU RS) to provide rates up to Rp. 0.



Education

The Ministry asserted that Indonesia has not been able to free basic education fees in private schools or schools under the Ministry of Religion. They are currently still lacking in budget to support operational activities. For public schools, teacher salaries have been borne by the government, but private school teacher salaries cannot yet be provided by the government.

The House of Representatives (DPR) seeks to realize additional budgets for the Ministry of Education, Culture, Research, and Technology (Kemendikbud Ristek) for 2025. The DPR plans to increase the budget of the Ministry of Education, Culture, and Research, and Technology in 2025 after submitting an additional budget of IDR 26.44 trillion.



Technology

A total of 15 top startups from Taiwan paid a visit to Indonesia. This visit aims to strengthen synergies in technology and digital transformation between Indonesia and Taiwan. The event is part of the ASEAN Innovation Business Platform (AIBP) Global Connect, which was held at the Ritz-Carlton Mega Kuningan in August 2024.

The program is also an initiative launched by the *Administration for Digital Industries* (ADI) under the Ministry and run by the Taipei Computer Association (TCA), which has established a close working relationship with AIBP to refine the offerings and solutions of these companies to be more in tune with the Indonesian market.



MSMEs

The Ministry of Cooperatives and SMEs established 5 foundations to transform into value-added and productive MSMEs and make them the mainstay of national economic development. **The first** foundation is an increase in the national entrepreneurship ratio through the Entrepreneur Hub. **The second** foundation is the strengthening of Micro and Small Business through cooperative-based corporatization of farmers and fishermen.

The third foundation is the strengthening of innovation and technology in industrial supply chain schemes through cooperative-managed Shared Production Houses. **The fourth** foundation, improving the quality and competitiveness of Micro Small Business products through Packaging Home Services. **The fifth** foundation is financing innovation through KUR/microcredits cluster, credit scoring, and cooperative financing in the real sector through LPDB-KUMKM.



Sustainability

Indonesia International Sustainability Forum (ISF) 2024 was held in 5-6 September 2024. The 2nd ISF themed "*Towards Sustainable and Inclusive Growth*" received more than 11,000 entries from more than 53 countries. The ISF 2024 Forum highlighted five pillars of discussion, namely the green economy, energy transition, biodiversity and nature conservation, sustainable living, and the marine economy (blue economy).

During the two days, the ISF 2024 event was filled with several agendas. The main session present keynote speakers, plenary, thematic sessions, High Level Dialogue, Memorandum of Understanding (MoU) Signing, exhibitions, to Gala Dinner.



Food & Agriculture Resilience

The Minister of Finance is preparing a budget for the Food Security program of IDR 124.4 trillion in 2025. The budget is to support various programs such as the development of Food Estate in 3 locations in Central Kalimantan, North Sumatra, and East Nusa Tenggara, up to the development of 250,000 hectares of new rice fields.

Meanwhile, to boost food security in terms of production, the government will allocate fertilizer subsidies of 8.5-9.5 million tons, provide agricultural equipment and machinery assistance of 1,012 units, provide agriculture's micro credits, and subsidize warehouse receipts. On the marketing side, the government still develops Government Food Reserves (CBP), subsidies for food reserves, revitalization of the people's market, to MSME's microcredits.



Logistics & Supply Chain

The policy to ban transportation of 3 or more axis logistics trucks on peak days or religious holidays, was criticized for the second time by practitioners. The government is advised to only regulate traffic so that it does not interfere with the distribution of goods. For example, for the trajectory of the Java region, the government could regulate traffic through 3 lanes, namely North, Central, and South.

The 3-axis truck can be directed to the North lane because it is directly connected or integrated into large ports in North Java. Meanwhile, small vehicles and motorcycles can pass through Central and South lanes so that traffic density can be divided. In addition, the traffic can also be arranged through time division. For example, road truck transportation may pass throughout the evening until the morning. Meanwhile, small vehicles and motorcycles can pass through morning until the evening.



Maritime Economy

The World Maritime Day 2024 falls on September 26, 2024, with the theme "Navigating the Future: Safety First!". Several initiatives will be held to commemorate The World Maritime Day. **First**, WMO-IMO Symposium on Extreme Weather at Sea. The event will focus on 'Bridging the Knowledge Gap Towards Safer Delivery'. Those who celebrate the day are encouraged to use #HariMaritimSedunia hashtag and tag IMO on social media.

Second, Illuminating important places: The IMO Headquarters will be illuminated by blue light. The IMO invites Member States, intergovernmental organizations in cooperation with the IMO, and non-governmental organizations in consultative status with the IMO to illuminate these important places.



Energy Resilience

The government stipulates Presidential Regulation Number 96 of 2024 on Energy Buffer Reserves (CPE). The signing of this Presidential Regulation marks the government's concrete steps in ensuring the availability of stable and affordable energy for all Indonesians. In general, this regulation regulates the type, amount, time, and location of CPE, CPE management, CPE funding as well as CPE coaching and supervision.

The types of CPE regulated in the Presidential Regulation include petroleum, gasoline-type fuel, and LPG, considering their strategic roles in national consumption and sources of revenue derived from imports. The amount of CPE gasoline fuel (*gasoline*) amounted to 9.64 million barrels, *Liquefied Petroleum Gas* (LPG) amounted to 525.78 thousand metric tons, and petroleum amounted to 10.17 million barrels.



Others

A report by the Indonesian Statistics at the end of August showed that the number of people entering the middle class for the last five years has decreased. The proportion of Indonesia's middle class in 2024 is 47.85 million people, lower than in 2019, which was 57.33 million people.

Meanwhile, the number of people below middle class or 'aspiring middle class' increased to 137.5 million people in 2024 while in 2019, the number is 128.85 million people. The Indonesian Statistics said that the declining middle-class population in Indonesia was influenced by the COVID-19 pandemic. The media said that the pandemic did boost the number of layoffs which further increased the unemployment number.

- 1 The First Neuroplatform Service Launched
- 2 Research to Reduce Plastic Waste
- 3 China Releases Carbon Emission Calculation Standard



The First Neuroplatform Service Launched

FinalSpark, a company engaged in the *biocomputer*, began offering artificial 'human brain'-based processor services for \$500 per user per month. The online platform, called the *neuroplatform*, is claimed to be millions of times faster than ordinary digital processors. FinalSpark currently offers four artificial organic brains that users can access anytime, from anywhere.

The architecture, called *wetware* or *biocomputer*, is relatively new and controversial because it combines hardware, software, and biology. In this case, the artificial 'human brain' used as a processor is cultured from human cells in the laboratory. Biocomputers are marketed as one of the solutions for energy savings when compared to hardware that uses transistors.



Research to Reduce Plastic Waste

Researchers at the University of California, Berkeley, have developed a new chemical process that can vaporize plastic waste, such as bags and bottles, into a reusable gas to make new ones. This catalytic process is able to work on two most prevalent types of plastic waste: polyethylene and polypropylene.

In addition to being useful for reducing plastic waste, this catalytic process can help create a new circular economy to recycle single-use plastics, while reducing the use of fossil fuels commonly used to make new plastics



China Releases Carbon Emission Calculation Standard

China plans to release 70 national standards for calculating carbon emissions by the end of 2024. The standards will cover carbon accounting, carbon footprint, reduction, capture, utilization, and storage in a variety of key sectors. The standards are built as a standardized carbon exchange calculation and evaluation system starting in 2025.

The focus of this standard is centered on the EV vehicle industry chain, such as photovoltaic products and lithium batteries, while also standardizing the carbon footprint of products such as electronics, plastics, and construction materials. The move is part of China's commitment to green and low-carbon development, with the goal of achieving peak carbon emission reduction by 2030 and carbon neutrality by 2060.



INDONESIA IN NUMBERS

1	Economy
2	Interest Rates and Business
3	State Budget Delivery
4	MSMEs and ESG
5	Foreign Debt and Foreign Exchange Reserves

Economy



Indonesian Economic Growth

Economic Growth (Q2 of 2024)

5.05% ● Projected 5.3%

Export (August 2024)

USD23.56 billion

▲ 7.13% y-o-y

Inflation (August 2024)

2.21% ▼ -0.33% y-o-y

Bol Interest Rate BI7DRR (August 2024)

6.25% ● 0.00 bps

Average Exchange Rate IDR/USD (August 24)

15,940 ▼ 0.32% m-o-m

Interest Rate (August 2024)

Deposit Facility **5.5%** Lending Facility **6.5%**

Guaranteed Interest Rate (August 2024)

IDR **4.25%** General Bank Valas **2.25%**
BPR/Rural Banks **6.75%**

Business (24 August)

Industry PMI Index

48.9 ▼ -1.4% m-o-m

Consumer Confidence Index

124.4 ▼ 3% m-o-m

Consumer Price Index

106 ● 0% m-o-m

Large Trade Price Index

2.82 ▼ 0.12% m-o-m

Real Sales Index

215 ▲ 5.8% y-o-y

Budget Delivery (IDR T, July 2022)



Government Revenue **1537.7** ▼ -6.8% yoy

Corporate Income Tax **191,8** ▼ -34% yoy

Domestic VAT **193** ▼ -8% yoy

Import VAT **151** ▼ -2.15% yoy

Government Expenditure **1.638** ▲ 12.15% yoy

Central Government Expenditure **1,170.8** ▲ 14.7% yoy

Local Transfers **468** ▲ 6.14% yoy

Village Fund **48** ▲ 19.4% yoy

Budget Surplus/Deficit **-93.4** ▼ -161% yoy

Surplus/Deficit against GDP **0.41%**

Financing **217** ▼ 31% yoy

MSMEs and ESG



ESG Index per August, 2024

ESGS KEHATI **140.78** ▲ 0.53

ESGQ KEHATI **140.88** ▲ 0.54

SRI-KEHATI **423.65** ▲ 1.81

ESG Leaders **167,24** ▲ 2.35

Low Carbon Leaders **131,97** ▲ 0.57

Registered MSME (per 2023)

Micro Business **6,887,479**

Small Business **187,402**

Medium Business **23,350**

MSME Credit (IDR T, Oct 2023) **1,432**

Delivery of MSME Credit/KUR (IDR T, Dec 2023) **1.572**

MSME Credit Debtors (Million, Dec 2023) **44.31**

Foreign Debt (USD M, Q2 of 2024)

Foreign Debt

408.6 ▲ 2.7% y-o-y

Government Debt

191 ▼ -0.8% y-o-y

Private Debt

197 ▼ 1.2% y-o-y

Foreign Exchange Reserves (USD M, August 2024)

150,4 ● 0.0% y-o-y

equivalent to:

financing 6.7 months of imports or 6.5 months of imports AND the payment of the government's foreign debt.



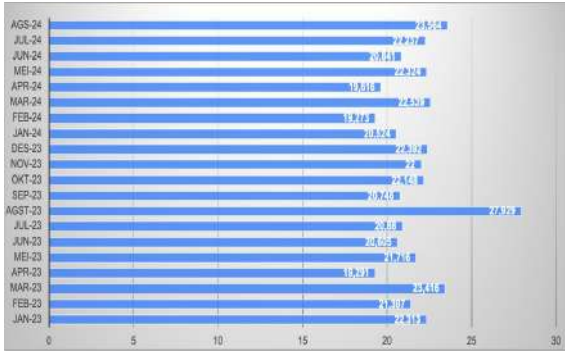
INDONESIA IN NUMBERS - EXPORT & IMPORT



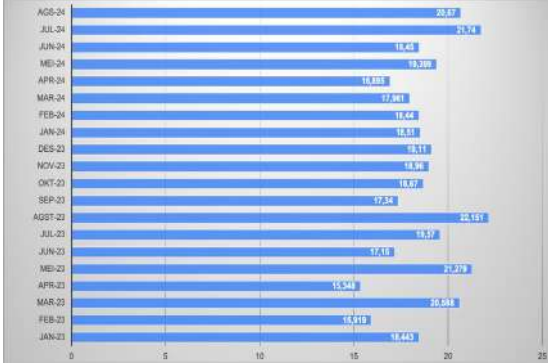
INDONESIA IN NUMBERS EXPORT & IMPORT

1	Total Exports
2	Total Imports
3	Featured Export Commodities

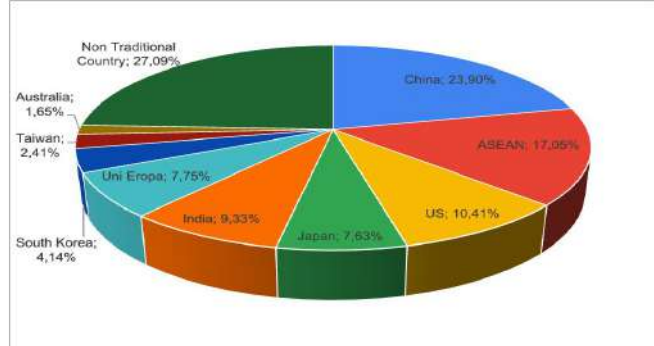
Total Exports (USD million)



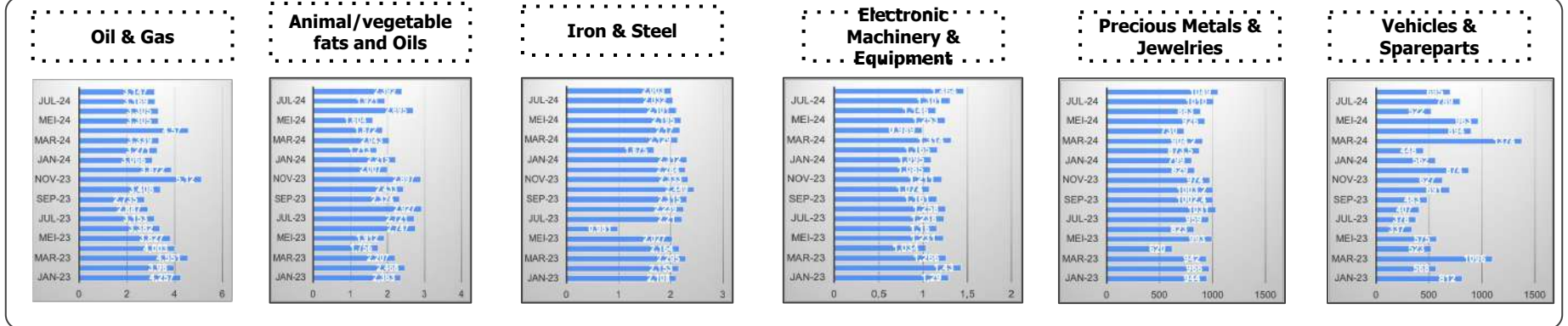
Total Imports (USD Million)



Market Share Trades August 2024



Export Commodities (USD million)





INDONESIA IN NUMBERS FOREIGN & DOMESTIC INVESTMENT

1

Total investments

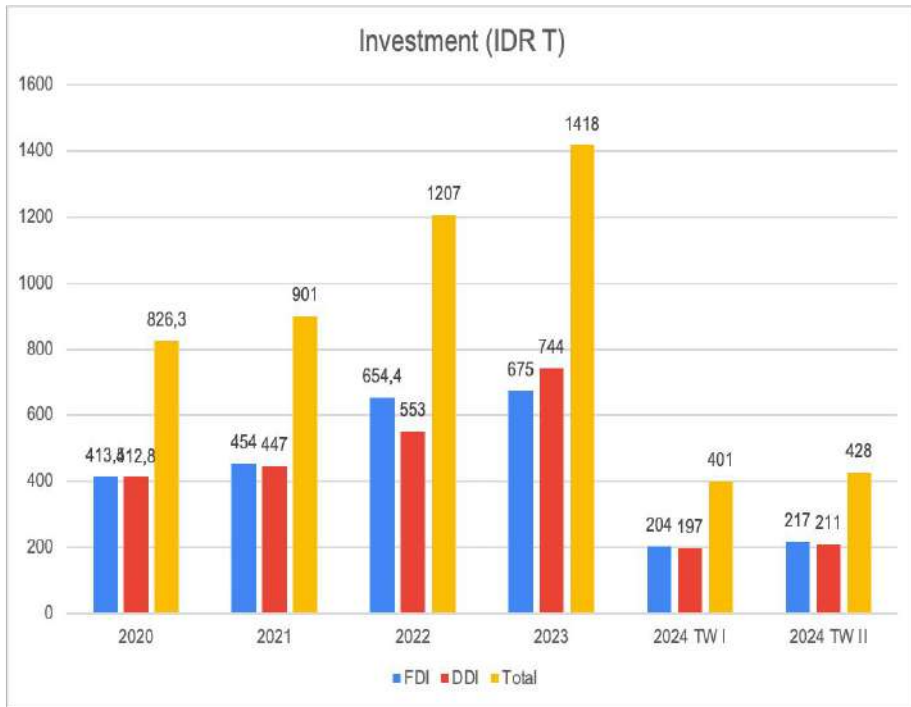
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Foreign Investments

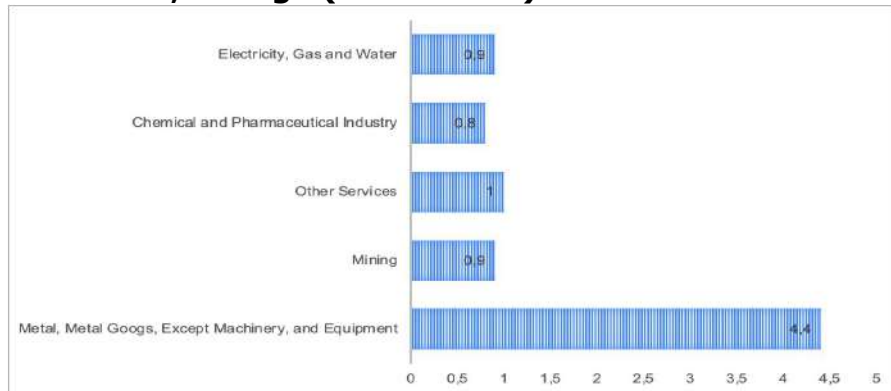
3

Sectoral Domestic Investment

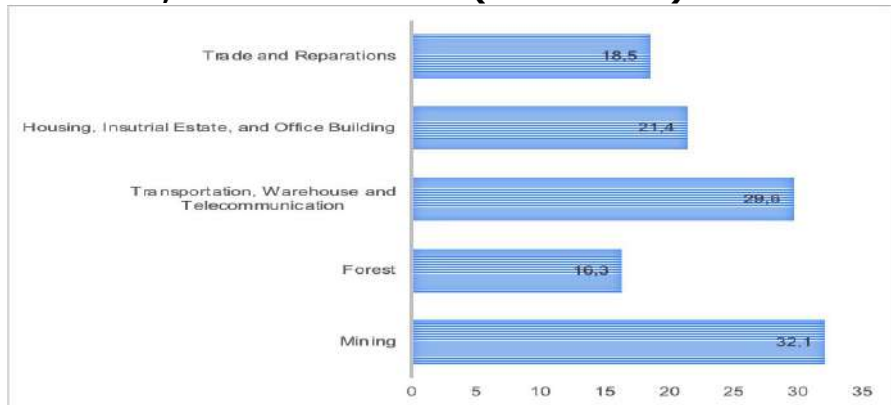
Total Investment (USD million)



Sectoral, Foreign (USD million)



Sectoral, Local Investment (IDR Trillion)





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