Islamic Economy in ASEAN Countries During the Covid 19 Era

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National Committee for Islamic Economy and Finance (KNEKS)
OUTLINE

OVERVIEW OF GLOBAL & NATIONAL ISLAMIC ECONOMY

KNEKS AT GLANCE

THE ECOSYSTEM OF ISLAMIC ECONOMY AND FINANCE IN INDONESIA

THE IMPACT OF COVID-19 IN ASEAN COUNTRIES
A. OVERVIEW OF GLOBAL AND NATIONAL ISLAMIC ECONOMY
Based on data from Global Islamic Economy Report 2019-2020, Indonesia is in fifth position, previously only in the 10th position.

**GIE Indicator Score**

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Indonesia is **rank 1** according to Global Islamic Finance Report (GIFR) 2019, up from rank 6 in 2018.

**Top IFDI Markets 2019**

Indonesia's ranking based on The Islamic Finance Development Indicator (IFDI) 2019 is ranked **4th**, up from **10th** place in 2018.

**Sumber:** The State of Global Islamic Economy Indicator Report 2019/20, GIFR 2019, IFDI 2019, GMTI 2019
B.

KNEKS AT GLANCE
Function of KNEKS

“Accelerate, expand, and advance the development of Islamic economy and finance in order to strengthen national economic resilience”

Scope of Islamic Economics and Finance

1. Development of Halal Industry
   - Providing recommendations for national development policy and strategic programs in the Islamic economic and financial sector

2. Development of Islamic Finance Industry
   - Coordinating, synchronizing, and synergizing the formulation and implementation of Islamic economic and Islamic financial plan strategic programs

3. Development of Islamic Social Funds
   - Formulating and providing the recommendations for problem solving in Islamic economic and financial sector

4. Development and Expansion of Islamic Business Activities
   - Supervising and evaluating the implementation of the policy direction and strategic programs in the Islamic economic and financial sector

Implementation of KNEKS’s Function is referred to Perpres No. 28 of 2020, Pasal 4
KNEKS AS A CATALYST IN ADVANCING ISLAMIC ECONOMY AND FINANCE TO STRENGTHEN NATIONAL ECONOMIC RESISTANCE

Chief

PRESIDENT

Vice Chief / Daily Chairman

VICE PRESIDENT

Coordinate the implementation of functions of KNEKS and provide direction

MEMBER

SECRETARY

EXECUTIVE MANAGEMENT

KEMENTERIAN KEUANGAN REPUBLIK INDONESIA

Evaluation and monitoring of executive management performance

Assist formulation and implementation of policies and preparation of strategic programs
C.

THE ECOSYSTEM OF ISLAMIC ECONOMY AND FINANCE IN INDONESIA
THE ECOSYSTEM OF ISLAMIC ECONOMY AND FINANCE IN INDONESIA

USE OF FUNDS

Infrastructure Projects
- Corporate / Capital Market Customers
- Commercial Customers
- SMEs Customers
- Ultra Micro Customers
- Mustahik & Mauqif ‘Alaih
- Pesantren

Development of Halal Industry
- Food and Beverages
- Tourism
- Fashion
- Cosmetics and Pharmacy
- Recreation Media
- New and Renewable Energy

Other Sectors

SOURCE OF FUNDS

Investment
- Third Party Fund
- Investment Fund
- Waqf Results
- Zakat
- Muzakki

BPKH/social security/Takaful/Pension Fund
- Principal

Cash Waqf Funds – Financial Asset

USE OF FUNDS

SOURCE OF FUNDS

Law / Regulation
- Human Resources
- Research
- Bankability
- Poverty Line

Supporting Ecosystems

Promotion, Literacy, and Communication

Digital Payment, Digital Marketplace, and Other Digital Initiatives

THE ECOSYSTEM OF ISLAMIC ECONOMY AND FINANCE IN INDONESIA

Law / Regulation

Human Resources

Research

Digital Payment, Digital Marketplace, and Other Digital Initiatives

Promotion, Literacy, and Communication

Supporting Ecosystems
D. THE IMPACT OF COVID-19 IN ASEAN COUNTRIES
INDONESIA

Total cases of COVID-19 globally and in Indonesia

Coronavirus disease (COVID-19) outbreak situation globally

<table>
<thead>
<tr>
<th>Confirm cases</th>
<th>Confirmed deaths</th>
</tr>
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<tbody>
<tr>
<td>8,242,999</td>
<td>445,535</td>
</tr>
</tbody>
</table>

Coronavirus disease (COVID-19) outbreak situation in Indonesia

<table>
<thead>
<tr>
<th>Rank</th>
<th>Province</th>
<th>Confirmed Cases</th>
<th>Confirmed Deaths</th>
<th>Recovery Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DKI Jakarta</td>
<td>9,349</td>
<td>563</td>
<td>4,445</td>
</tr>
<tr>
<td>2</td>
<td>Jawa Timur</td>
<td>8,533</td>
<td>651</td>
<td>2,381</td>
</tr>
<tr>
<td>3</td>
<td>Sulawesi Selatan</td>
<td>3,200</td>
<td>123</td>
<td>1,104</td>
</tr>
<tr>
<td>4</td>
<td>Jawa Barat</td>
<td>2,703</td>
<td>169</td>
<td>1,177</td>
</tr>
<tr>
<td>5</td>
<td>Jawa Tengah</td>
<td>2,346</td>
<td>121</td>
<td>860</td>
</tr>
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Case Comparison

WHO Regions

- **Americas**: 4,015,386 confirmed cases
- **Europe**: 2,471,792 confirmed cases
- **Eastern Mediterranean**: 837,497 confirmed cases
- **South-East Asia**: 521,582 confirmed cases
- **Western Pacific**: 201,462 confirmed cases
- **Africa**: 194,539 confirmed cases

National Trends

Source: World Health Organization (18th June 2020)

Source: https://covid19.go.id (18th June 2020)
The COVID-19 pandemic has increased uncertainty which leads to reduction of investor's interest in making direct investments. Consequently it will lead to a decrease in the flow of foreign capital into Indonesia.

Supply and Demand shock cause a decline in Indonesia's economic growth to 2.3% in the severe scenario and continue to -0.4% in the very severe scenario.

• This condition will reduce investment in goods and services, and private consumption and investment.
• Private consumption is predicted to decline in 2020 in the range of 4.6-5.0%.
• Reducing the economic performance of the tourism, trade, manufacturing, and then propagating other sectors.
• Threats to financial sector stability: stock market volatility, Rupiah depreciation, NPL increase, liquidity issues and insolvency.

The disruption of the global supply chain as a result of COVID-19 is predicted to affect Indonesia's exports due to the unavailability of intermediate materials produced in other countries.

Source: Ministry of Finance & Central Bank of Indonesia (2020)
## IMPACT OF COVID-19 TOWARDS BANKING AND NON-BANKING SECTOR

### Banking

- Liquidity issues especially for smaller banks
- Increase in NPL and financial restructuring activities
- Decrease in profit causing profitability ratios such as ROA and ROE to suffer
- In the long-term, may result in reducing bank’s capital. Thus, affecting its ability to disburse financing or conducting specific type of business
- Decrease in financing quality of Rural Banks (BPR), particularly for SMEs business and hajj & umrah-related business which may lead to surge in NPL
- Customers’ transactions shift to mobile & internet banking
- Banking operation shift to internet-based activities with WFH policy may affect its productivity, esp. related to financing e.g. customer survey (OTS)

### Capital Market

**Capital Market:**
- Increase in the total capital outflows. In Indonesia, from January to April 2020, the capital outflows is amounted at Rp171.6 T (SBN Rp157.4 T & Stocks Rp13.3 T)
- Majority of mutual funds recorded negative NAV’s growth (MoM) in exception for money market mutual funds that showed positive growth.

**Sukuk:**
- Sukuk issuers in the Covid19’s affected sectors may have difficulties in meeting their due liabilities.
- New sukuk issuance may require higher cost due to an increase in expected yield

### Non-Banking Financial Institutions

- **Life & General Insurance:** Increase in claims particularly for life & health insurance; decrease in premiums’ payment including travel premiums from hajj & umrah; declining portfolios’ value in capital market instruments.
- **Multifinance:** increase in restructuring activities, drop in financing growth (Indonesia -15% (YoY))
- **Pension Fund:** regular contribution may not be made in time/postponed; declining investment value in capital market portfolio
- **Rahn (Pawnshop):** Delay in due payment
- **Credit Insurance:** increase in financial reserve for preventing default cases
Covid-19 will also affect the workforce, particularly those who are seeking their livelihoods in the informal sectors. In Indonesia, more than 80% of employment lies in these sectors. An economic slowdown such as the crisis from the Covid-19 outbreak will plunge these workers into unemployment and poverty (ILO, 2020).

- The micro-small business sector is the dominant sector in Indonesia's economic structure.
- Based on data from the Ministry of Cooperatives and SMEs in 2018, the number of micro, small and medium enterprises (MSMEs) is approximately 64 million or 99.9%. This sector absorbs more than 113 million workers or 93.88% of the total workforce.

**Threat:** Poor households and micro and small enterprises (MSEs) are prone to loss income.

- Most of MSEs are categorized as vulnerable group that occasionally can fall below the poverty line when crisis occurs.
- Unemployment rate will drastically rise especially in countries that are dominated by MSEs entities.
- The number of poor people will increase steeply, while middle class will decrease significantly.

Source: Ascarya (2020)
Government Regulation (PERPPU) No. 1 Year 2020

- Total fiscal support is amounted of IDR 686.20 trillion.
- From the total fiscal support, the amount of IDR 87.55 trillion will be allocated for health programs and the amount of IDR 598.65 trillion is for the National Economic Recovery (PEN).

National Economic Recovery (PEN) includes:
- Social Protection: IDR 203.90 trillion
- Business Incentives: IDR 120.61 trillion
- Support for MSMEs: IDR 123,46 trillion
- Corporate Financing: IDR 44.57 trillion
- Sectoral Support of Ministries/Agencies: IDR 106.11 trillion
- and Local Government

**Total: 598.65 trillion**

### National Income

- Tax revenues decrease due to weaker economic condition. The support of tax incentives and individual income tax cut are needed.
- Non-Tax National Income falls due to falling commodity prices

### State Budget Deficit 2020

- Estimated to reach **6.27% of GDP**. The budget shortfall now is expected at 1,028.5 trillion rupiah ($69.3 billion)

Government's efforts to restructure the State Budget for Covid-19 leads to the rise of national debt

Government needs **alternative source of fund** to help fiscal deficit, especially for social purposes

**Islamic Economy and Finance** could relieve government's burden in facing Covid-19

Source: Ministry of Finance, 2020 & Ministry of Coordination Economic Affairs
Islamic finance has strong potential in promoting both social and economic development. Islamic finance also offers social finance instruments that target the poor, needy, and vulnerable group amid COVID-19 pandemic.
Zakat has huge potential in reducing government fiscal cost in facing Covid-19 especially for the basic needs of the poor, needy, and affected communities.

Indonesia is one of the most generous countries in the world, this award is related to faith-based charity (World Giving Index 2019).

Indonesia is the largest Muslim-majority country in the world with 87% Muslim populations.

The potential of zakat collection in 2019 is IDR 233,84 trillion or US$14,9 billion, while the actual collection is around IDR 10 trillion through formal Amil.

The collection of Zakat, Infaq, and Shadaqah in Indonesia keeps increasing with average growth of 36,2% during 2002-2019.

Source: Baznas, 2019-2020; World Giving Index, 2019
Government Stimulus and Financial Support

Brunei Darussalam has been hit by two shocks—the spread of COVID-19 and the sharp decline in global oil prices.

**First State-led Measure**
1. To support the business sectors in the form of a six-month deferment of principal repayment of financing
2. This deferment will also be extended to food and medical supplies importer
3. All bank fees and charges, except third party charges, related to trade and payment transactions for companies in these sectors will be waived for a period of six months

**Second State-led Measure**
The second set of measures centered on tax, utility and social security deductions and deferments to help Brunei’s private sector mitigate the fallouts from the COVID-19 crisis.

**Third State-led Measure**
The packages are deferment of principal payment of loans or financing for all sectors; restructuring and deferring principal amounts on personal loans and hire purchase facilities; provision of deferment of principal amount or financing for real estate; restructuring outstanding credit card balance to loans for a period of not more than three years for individuals affected in the private sector only including the self-employed, and all bank fees and charges will not be applied.
There are four deferments or eligible delays in the new packages including for the Islamic Finance Sector.

- **Deferment on repayment for financing for all business sectors**
- **Restructuring and deferment of repayments for personal financings and hire purchase facilities including car financings for up to ten years for businesses and working individuals**
- **Delaying repayment of property/real estate financings for businesses and working individuals**
- **Restructuring outstanding credit card debt into financings not longer than three years for private sector employees and the self-employed.**

Source: AMBD Annual Report 2018
In this environment, Malaysia’s economic growth is projected to be between -2.0% and +0.5% in 2020.

Growth to be weighed by:
- Output loss from Covid-19
- Movement Our Control
- Commodity supply disruptions

Growth to be supported by:
- Stimulus measures and policy rate cuts
- Continued progress of public projects and higher public sector expenditure

Source: Bank Negara Malaysia
Due to the shifts in aggregate demand and aggregate supply, liquidity in the country would shrink first. This would bring about loan defaults by businesses and individuals, causing further liquidity and credit crunch. Banks with NPLs will cut lending. The economy shrinks further by a multiplier effect.

Bankruptcies and foreclosures would rise.

Banking failures and mergers are likely to ensue.

As for the growth of Islamic banking and finance per se, Fitch Ratings, nevertheless, expects Islamic financing to still grow faster than its conventional counterpart but likely to fall short of Bank Negara Malaysia’s 40% market share target of the total banking assets for 2020.
The Bank’s priority is to ensure that the financial system continues to serve the needs of the economy.

Relief: Individuals, SMEs and corporates
- 6-month deferment on loans or financing for individuals and SMEs
- Conversion of credit card balances into term loans/financing
- Facilitate corporates’ request to defer, restructure or reschedule loans
- Lower financing costs from OPR reduction in January and March 2020
- Flexibilities to preserve insurance/takaful policies

Measures to support lending activities by financial intermediaries
- Adjustments in Statutory Reserve Requirement (SRR)
- Flexibility to draw on capital and liquidity buffers
- Review of regulatory priorities and implementation timelines

Source: Bank Negara Malaysia
SHARIAH INDICES – CAPITAL RETURN

Source: FTSE Russell Factsheet
Economic stimulus package “Prihatin” will cushion the impact on households and businesses

**Strengthening Healthcare Resources**
- Increase medical personnel and equipment for detection and treatment

**Providing Safety Net To Household**
- Bantuan Prihatin Nasional and Living Expenses Support (BSH)
- Lower EPF contribution & i-Lestari withdrawal scheme
- Loan moratorium for 6 months

**Minimising Adverse Impact On Businesses**
- RM5 bn Special Relief Facility, RM 6.8 bn All Economic Sectors Facility
- Loan moratorium for 6 months
- Employment Retention Programme
- Deferment of income tax, exemption of service tax & electricity bill discount

**Seizing Future Growth Opportunities**
- Small-scale projects worth RM4 billion
- Infrastructure investments by public corporations

In total, stimulus measures are estimated to add + 2.8 ppt to 2020 GDP growth

Source: Bank Negara Malaysia
OPPORTUNE TIME FOR ISLAMIC FINANCE

- Shift from credit-based financing to an equity-based one
- Digital payment systems, Islamic micro-finance, Islamic Social Finance, Agent-banking and cooperatives will become popular and grow in size
- Non-bank Islamic finance like peer-to-peer financing will rise tremendously post COVID-19.
THANK YOU