THE NATIONAL TEAM FOR THE ACCELARATION OF POVERTY REDUCTION

TNP2K

Poverty Brief

POVERTY AND THE ECONOMY

Inflation

Inflation in November was 0.12% which resulted in a 7.8% year-on-year inflation rate (Y-o-Y, November 2012 – November 2013) and 9.4% year to date inflation rate (January – November 2013). The highest inflation in November was in the housing sector (0.7%) which was caused by an increase in the price of electricity in October 2013. In 2013, the government increased the price of electricity in four stages (Stage 1: January – March 2013, Stage 2: April – June 2013, Stage 3: July – September 2013, and Stage 4: October 2013). The price of processed foods increased by 0.3% while the price of food (including rice, meat, fish, vegetables, etc.) declined by 0.5%.

In December 2013, inflation measured in at 0.55% with the highest inflation occurring in food prices (0.8%) and processed food prices (0.7%). Inflation in the transportation sector was still high at 0.6%. For 2013, the headline inflation was 8.38%, almost double than the 2012 inflation of 4.3%.

Furthermore, in 2013, the monthly inflation was always higher than monthly inflation in 2012 except in April, May and September 2013 when the price index was deflated. The highest inflation during 2013 was in July (3.25%) and in August (1.12%) due largely to the reduction in oil subsidies at the end of June 2013.

Commodities that had the highest inflation during 2013 were fuel (1.2%), city transport (0.8%), onions (0.4%), electricity (0.4%) and chillies (0.3%). Three of the five highest inflation rates in 2013 were observed in government administered prices: fuel and electricity, while high inflation in the price of onions and chillies was the result of government policies on horticultural products in early 2013. As shown in Table 1, the cause of inflation in 2013 was different than in 2012. Food and processed food dominated inflation in 2012 while transportation, electricity and food dominated the 2013 inflation.

Table 1. Contribution of Commodity Group to Headline Inflation, 2012 and 2013 (%)

Commodity Group	2012	2013
Headline Inflation	**4.30**	**8.38**
Food	1.31	2.75
Processed Food	1.09	1.34
Housing, Water, Electricity, Gas and Fuel	0.80	1.48
Clothing	0.35	0.04
Health	0.12	0.15
Education, Recreation and Sport	0.28	0.26
Transportation, Communication and Financial Services	0.35	2.36

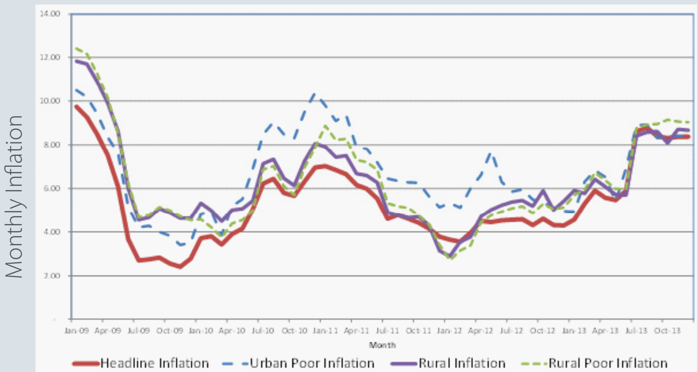
Source: Warta IHK 66 Kota, January 2014

High inflation in the food and transportation sectors had negative impacts on poor people since nearly 65% of their consumption expenditure is on food. As discussed further in the special report section, although the consumption expenditures of the poor increased during the March to September 2013 period, the rate at which inflation rose was faster than the rate at which consumption expenditures did. This resulted in a slowdown in the rate at which poverty decreased.

Inflation for the poor in both rural and urban areas was relatively higher than headline inflation during 2013, largely due to high food prices.

Poverty and The Economy

Figure 1. Headline inflation and Inflation for the Poor, Rural and Urban, (2009 – 2013)



Source: BPS, Warta IHK 66 Kota, various editions.

World Food Prices

Based on World Bank data[1] , the world price of food declined in the last quarter (October – December 2013). The average consumer price index in the last quarter of 2013 was 1.7 percentage points below the average for quarter three. While the price of grains was 10% lower than previous quarter, the price of fats and oils increased by 4.7%.

Meanwhile, the Food and Agricultural Organization (FAO)[2] predicts that world food prices in 2014 will be more balanced with the rising price of fish and meat offset by lower prices for some commodities such as sugar.

Growth

World economic growth has not changed significantly

International economic conditions have not changed significantly, although the situation is improving. According to the World Bank, uncertainty in Europe continues with fragile and uneven recovery due to ongoing deleveraging and considerable reform challenges.[3] The United States is expected to begin the tapering of quantitative easing in January 2014. The U.S. Federal Reserve (Fed) will reduce its $85 billion a month bond purchases by $10 billion starting in January, citing a stronger U.S. recovery. The reduction will be split evenly between the Fed's purchases of Treasury debt and securities backed by home loans. The Fed revised its outlook for economic growth in the U.S. in 2014 to between 2.8 % and 3.2 %, from an estimated 2.9 % and 3.1 % in September 2013. U.S. stocks soared on the news (December 18, 2013) with the Dow Jones industrial average and the S&P 500 closing at all-time highs.

The Chinese government announced a 7.6% growth rate for 2013 which means that Chinese growth in quarter four was slower than in previous quarters. The slow recovery of the global economy affects commodity prices which in turn will affect the Indonesian economy through the Balance of Payments.

Indonesia's economic growth in quarter four of 2013 is expected to be slower than in previous quarters

Indonesia's economic growth is expected to be slower in the final quarter of 2013 given pressures due to both domestic and international economic conditions. Macroeconomic adjustment policies such as monetary policy and the exchange rate adjustment have had positive impacts on economic stability. However, the depreciation of the Indonesian Rupiah bears down on the economy due to the rising Rupiah value of external debt and lower income caused by higher debt servicing and import costs.

The World Bank in its Indonesia Economic Quarterly, December 2013 predicted that Indonesia's economy in 2014 would grow at 5.3%, lower than the economic growth rate in 2013. Lower commodity prices, tighter international financial conditions, higher real domestic interest rates and depreciation of the Rupiah are all factors that affect the economic growth in 2014. This projection however is still subject to significant uncertainty due both to domestic and international economic conditions.

The trade balance has improved

For the last two months (October and November) the trade balance exhibited a surplus of $24 million and $227 million respectively. These were caused by the surplus in non-oil trade ($783 million and $2 billion in October and November) while the oil and gas trade was still in deficit due to high oil imports for domestic consumption ($760 million and $1.2 billion respectively).

Slower economic growth and the depreciation of the Rupiah helped stabilize the trade balance due in part to lower import demand, especially for capital goods and higher non-oil exports. This condition also continues to narrow the overall current account deficit.

Impact on the Poor

Real Wages

Given the lower inflation rate during the fourth quarter of 2013, only construction workers experienced a slightly increased real

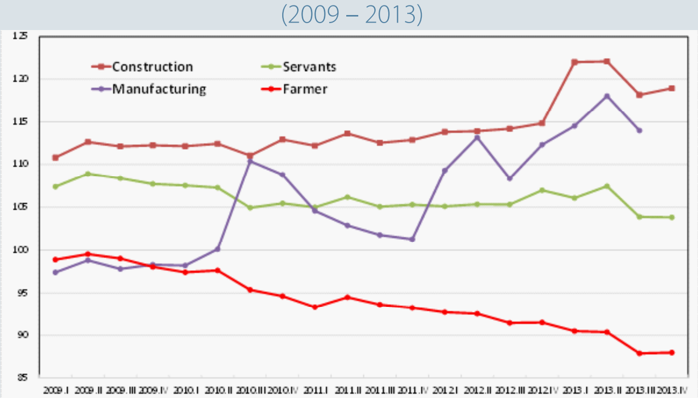
[1] World Bank Commodity Market, January 2014.
[2] http://www.fao.org/news/story/en/item/212018/icode/
[3] World Bank, 2013, Indonesia Economic Quarterly, Jakarta, December 2013.

wage while real wages for household servants and agricultural workers remained relatively stable.

Indonesia's labour market is still dominated by the informal sector (more than 50% of total workers and 70% in rural areas). The sectors that provide the largest employment are low value-added sectors and since 2001, expansion of labour market has been driven by low productivity sectors. Meanwhile the expansion of higher productivity sectors is still constrained by the lack of availability of skilled workers (World Bank, IEQ 2013).

Workers in informal sectors are vulnerable because informal sector jobs provide less protection against risks and shocks and informal workers do not have access to social security benefits. These workers are highly vulnerable to falling below the poverty line.

Figure 2. Real Wages Index for Farm, Construction, Manufacturing Workers and Household Servants (2009 – 2013)



Source: BPS, Berita Resmi Statistik - Perkembangan Nilai Tukar Petani, Harga Produsen Gabah dan Upah Buruh, various editions.

Special Report

"Increase" in Poverty as observed in BPS Data in September 2013

Since 2012, the Central Bureau for Statistics (BPS) has published poverty data in September as well as in March every year. This poverty figure is based on the National Socio-economic Survey (Susenas) which is conducted every quarter (March, June, September and December). The March poverty figure has been used as an annual poverty indication and is delivered by the President at the Budget Speech in March of every year. Since quarterly poverty data is very cyclical it is not advisable to compare the data between March – June – September and December. Annual comparison is statistically more acceptable (comparing March to March or September to September).

Since BPS has published the data, it is necessary to understand the characteristics of this poverty trend. Comparing poverty data between September and March 2013 reveals an increase in the poverty rate from 11.37 to 11.47. However, in the annual context, the number and percentage of poor people declined (both in March and in September data). However, the rate of poverty reduction is slower as depicted in Table 2 both in the number of poor people and the poverty rate.

Table 2. Change in Number of Poor People and Poverty Rate

Period	Change in number of Poor People (million people)	Change in Poverty Rate (percentage point)
March '12 – March '13	-1.06	-0.58
Sept '12 – Sept '13	-0.05	-0.19

Source: BPS, Profil Kemiskinan di Indonesia September 2013, January 2014

The slower rate of poverty reduction is related to the economic development between March and September 2013. During this period, inflation was 5.02%, which was nearly double compared to the same period in 2012 (2.95%). This high inflation was caused by the increase in the price of fuel in June (premium from Rp.4,500/liter to Rp.6,500/liter and diesel from Rp.4,500/liter to Rp.5.500/liter); the price of rice from Rp.10,748/kg (in March) to Rp.10,969/kg (in September) and increase in the prices of several commodities such as chicken (21.8%), eggs (8.2%) and chillies (15.1%). Any increase in the price of food has a significant impact on the poor since 65% of their expenditures are on food consumption. Poverty Line inflation is always higher (7.85%) than Consumer Price index (CPI) inflation because the share of food products is larger in the poverty line and more volatile.

At the same time, the expenditures of poor households actually increased. Consumption per capita for decile 1 (the poorest 10%) and decile 2 (the poorest 20%) increased by 7.5% and 7.7% respectively. This is however lower than the increase in poverty line inflation. Since the increase in expenditures for both deciles could not 'catch up' with the poverty line inflation, the number of poor people increased between March and September 2013.

The impact of the fuel price increase was anticipated by the government which launched the P4S (Program Percepatan dan Perluasan Perlindungan Sosial – Acceleration and Expansion of

Table 3. Share in Consumption Expenditure

	Share/weight (%)	
	Consumption of General Population (CPI)	Consumption of Poor Household (Poverty Line)
Rice	5	29
Other foods	15	28
Processed food and cigarettes	17	8
Housing	26	17
Clothing	7	4
Health	4	3
Education	7	4
Transportation	19	7
Total	**100**	**100**

Source: BPS, Warta IHK, various edition

the Social Protection Program) to mitigate shocks associated with the price hikes. The P4S program includes: (i) provision of Unconditional Cash Transfer (Bantuan Langsung Sementara Masyarakat or BLSM) in the amount of Rp.600.000 in two installments (June and September), (ii) two additional allocations from the Rice for the Poor Program (Beras Miskin or Raskin), (iii) increased allocation and value of Cash Transfers for Poor Students (Bantuan Siswa Miskin or BSM), and (iv) an increase in the value of Conditional Cash Transfers for Poor Families (Program Keluarga Harapa or PKH) from an average Rp.1.4 million to Rp.1.8 million per household/year, and (v) infrastructure program. While the P4S program has successfully increased the consumption of the poor, consumption growth has remained slower than the inflation rate.

Of the 520,000 people who fell into poverty between March and September 2013, 300,000 resided in urban areas. This reflects that the urban poor are more vulnerable than the rural poor to shocks to their income and expenditures.

Poverty rates and the number of poor people depend on domestic economic growth and the availability and affordability of food and social protection programs. It is crucial therefore to guarantee the supply of food and the stability of food prices to dampen the increase in the poverty line. Social protection programs need to be delivered better: the right amounts, to the right beneficiaries at the right time.

The **TNP2K Poverty Brief** provides a snapshot of recent trends, news and academic research in Poverty Reduction in Indonesia as well as their impact on and relationship with pro-poor programmes.

Support for this publication has been provided by the Australian Government through the Poverty Reduction Support Facility (PRSF).

The findings, interpretations and conclusions expressed in this work do not necessarily reflect the views of the Government of Indonesia or the Government of Australia.

Please cite this brief as follows:

Tim Nasional Penanggulangan Kemiskinan (TNP2K). 2014. "Poverty and the Economy." *TNP2K Poverty Brief*. January: page number.

SEKRETARIAT
TIM NASIONAL PERCEPATAN PENANGGULANGAN KEMISKINAN

Sekretariat Wakil Presiden Republik Indonesia
Jl. Kebon Sirih No. 14 Jakarta Pusat 10110
Telp : 021-3912812
Faks : 021-3912 511
E-mail : info@tnp2k.go.id
Website : www.tnp2k.go.id

TNP2K
TIM NASIONAL
PERCEPATAN PENANGGULANGAN KEMISKINAN

Australian Aid