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THE NATIONAL TEAM FOR THE ACCELARATION OF POVERTY REDUCTION

TNP2K

Poverty Brief

POVERTY AND THE ECONOMY

Inflation

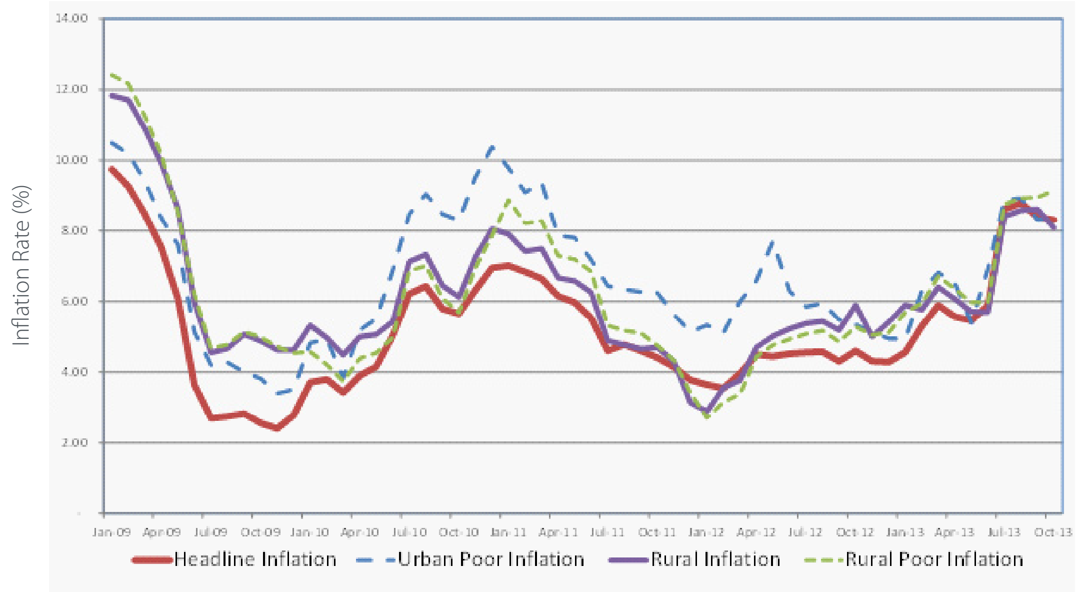
After a deflation in the Consumer Price Index (CPI) in September 2013 (-0.3 percent), the inflation rate in October 2013 was 0.09 percent and resulted in year-on-year inflation of 8.32 percent and year-to-date inflation of 7.66 percent.

Food products which constituted the biggest contribution to inflation in the last several months experienced deflation both in September (-2.7 percent) and in October (-0.6 percent). The decline in the price of food benefited the poor since nearly 50 percent of their expenditure is on food consumption. This decline therefore is expected to ease some of the burden of living expenses on the poor. Deflation in food products also lowered the inflation rate in general.

Other commodity groups that contributed significantly to inflation for the last two months were processed goods and clothing in September and processed goods and transportation in October. The increase of gold in September resulted in inflation of the clothing group by 2.99 percent in September, the highest inflation for this group of commodities for the last two years. The cost of transportation declined by 0.8 percent in September as an adjustment to the increase in fuel prices during July and August, caused by the reduction of fuel subsidies at the end of June. However, the cost of transportation increased again in October by 0.53 percent.

The differences between rural/urban and poor/non poor inflation was quite small for the last several months, however since September 2013, the inflation for the rural poor was higher than the inflation for other groups as shown in the graph below. Further investigation is needed to explain these differences.

Figure 1. Headline Inflation and Inflation for the Poor
Rural and Urban



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

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World Food Prices

Based on World Bank data[1], the decline of world food prices has been slowing down for the last three months. In October, the price of food was almost constant while the price of fats and oil increased by 0.9 percent, the price of grains remained relatively constant and price of other foods declined by 1.1 percent. While in September, the foods price declined by 0.6 percent, fats and oils increased by 4.6 percent, grains declined by 7.6 percent and other foods declined by 0.5 percent.

As mentioned earlier, since a large portion of the expenditure by the poor is on food consumption, the forecast of world food prices is important to help anticipate the impact of food price changes on the poor.

Growth

World economic growth is still weak

The World Economic Outlook 2013 published by the International Monetary Fund (IMF) in October 2013 reports that the world economic growth is still weak but the underlying dynamics are changing with a continued downwards forecast.

"Markets are increasingly convinced that U.S. monetary policy is reaching a turning point, and this has led to an unexpectedly large increase in long-term yields in the United States and many other economies. This change could pose risks for emerging market economies, where activity is slowing and asset quality weakening. Also, growth in China is slowing, which will affect many other economies, notably the commodity exporters among the emerging market and developing economies. At the same time, old problems––a fragmented financial system in the euro area and worrisomely high public debt in all major advanced economies––remain unresolved and could trigger new crises."[2]

Indonesia economic growth slower as expected

With the weak global economy, the Indonesia economic growth was slower in the Q3-2013 compared to Q2-2013. The annual growth of Q3-2013 was 5.62 percent, lower than the 5.81 percent growth in Q2-2013. The slower economic growth was mainly due to the declining growth in construction and weak investment in non-construction sectors. Net export was also weak because of high import especially oil and gas imports. On the other hand, household and government expenditures increased in the last quarter.

According to Bank Indonesia, the slowdown of the domestic economy was a result of stabilization policies by the Government and Bank Indonesia to guide economic growth towards a more sound and balanced direction. With the development in the Q3-2013, Bank Indonesia is confident that the economic growth for 2013 will be in the 5.5 percent to 5.9 percent range as forecasted previously.

The trade balance improved steadily

"According to Bank Indonesia, the economic stabilization policies launched by Bank Indonesia and the Government have brought steady improvement in the trade balance. This improvement in the trade balance deficit has been driven primarily by a widened non-oil and gas trade surplus as non-oil and gas imports fall more rapidly than non-oil and gas exports. While non-oil and gas exports continue to fall in value due to the lack of recovery in world prices, export volume has reported positive growth bolstered most importantly by the mounting volume of mining exports, such as coal, copper ore, nickel and bauxite. However, the upbeat non-oil and gas trade balance was not matched by improved performance in the oil and gas trade balance. The oil and gas trade deficit mounted further over the preceding quarter, due to higher imports driven not only by persistently high consumption of oil-based fuels, but also surging demand over the Eid-ul-Fitr holidays during August 2013." [3]

Impact on the Poor

Unemployment

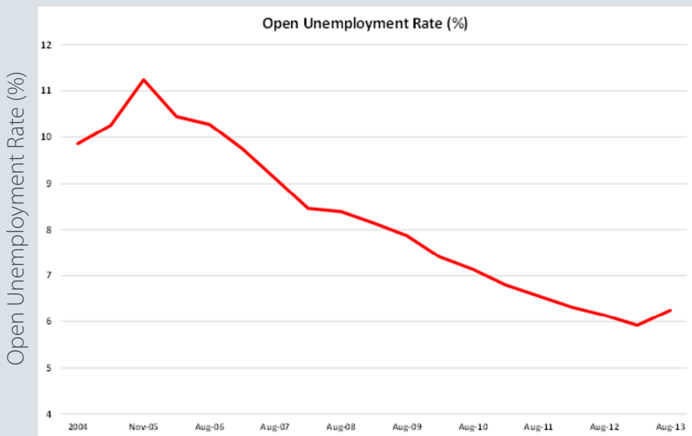
The latest data on employment released by BPS in November shows that the open unemployment rate increased in August 2013 to 6.25 percent compared to 5.92 percent in February 2013 and 6.14 percent in August 2012. Open unemployment rates for vocational and high school graduates had increased to 11.2 percent and 9.7 percent respectively.

Compared to August 2012, some sectors employed more labor especially in public services (increased by 1.1 million or 6.5%), trade (580 thousand – 2.5%) and financial (250 thousand – 9.4%). Meanwhile sectors that employed less labor were agriculture, construction and industry which declined by 2.1%, 7.5% and 3.2% respectively.

[1] World Bank. 2013. World Bank Commodities Price Data (The Pink Sheet).
[2] IMF. 2013. World Economic Outlook (last 3 words italicized). Washington, DC: IMF.
[3] http://www.bi.go.id/mweb/en/Ruang+Media/Siaran+Pers/sp_154513_dkom.htm

Factors that have led to the higher unemployment rate include slower economic growth in 2013 and the significant increase in minimum wage in early 2013. The higher unemployment rate will increase pressure on the poor who usually work in the informal sector. With less employment in the formal sector, the remaining labor force will enter the informal sector and push down the wages in the informal sector and make the poor worse off.

Figure 2. Open Unemployment Rate (%)



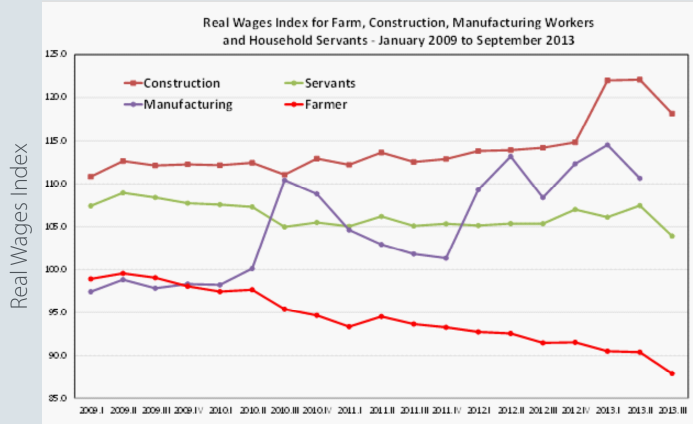
Source: BPS, Berita Resmi Statistik - Keadaan Ketenagakerjaan Indonesia, various editions.

Real Wages

High inflation since the second quarter of 2013 has pushed real wages in the formal sector down (see Figure 3). In Q3-2013 real wages for farm workers, construction workers and household servants declined by 2.7 percent, 3.2 percent and 3.3 percent respectively. Meanwhile, the data for manufacturing workers were only available until Q2-2013 and these also show a decline by 3.4 percent compared to the previous quarter.

The expected increase in minimum wage for 2014 might increase the real wages in the formal sector if the inflation rate is lower than the increase in the minimum wages. However, the wage increase in the formal sector does not necessarily mean that the informal sector will be better off. On the contrary, if industries see that Indonesia is no longer profitable for them, they can relocate their operations to China or Vietnam which will result in more unemployment in the formal sector which could move to the informal sector and push wages in the informal sector further down.

Figure 3. Real Wages for Farm, Construction, Manufacturing Workers and Household Servants January 2009 to September 2013



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

Special Report

Identifying the Vulnerable

Although Indonesia has been quite successful in decreasing the poverty rate over the past few decades, there has been large socioeconomic mobility between 1997 and 2007, with frequent movements in and out of poverty. A large proportion of the population (27 percent) has experienced poverty at least once. The two goals of reducing poverty in a sustained way reducing poverty in a sustained way and targeting assistance to the neediest population groups require being able to identify the groups that are more vulnerable to becoming or remaining poor in the future. TNP2K's working paper by Adama Bah proposes a method to estimate household vulnerability to poverty as the probability of being poor in the future given current characteristics, including consumption.[4]

This method, based on panel data, provides helpful information for better policy design towards these which two goals. It corroborates that there is high vulnerability to poverty in Indonesia; about 60 percent of households were deemed vulnerable in 2000 whereas the poverty rate of that same year was 17 percent. Furthermore, this method is shown to be useful in measuring vulnerability in an efficient way to produce valid predictions of future poverty: about

[4] Bah, Adama (2013), 'Finding the Best Indicators to Identify the Poor', TNP2K Working Paper 01-2013. Tim Nasional Percepatan Penanggulangan Kemiskinan (TNP2K): Jakarta, Indonesia.

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80 percent of the households with a 2000 vulnerability index of 100 percent were actually poor in 2007. The accuracy of these out-of-sample vulnerability estimates provides a good argument for implementing the method using one (panel) sample and applying the parameters obtained in another (potentially cross-sectional) sample in order to predict the probability of future poverty.

In Indonesia, vulnerability is currently defined as the population that lives with up to 1.2 or 1.4 times the poverty line. This definition has been used recently to determine the coverage of the Social Protection Card (Kartu Perlindungan Sosial – KPS) launched in June 2013. Using this card, eligible households are entitled to benefits from three social protection programs – a rice subsidy program, (Beras untuk Rumah Tangga Miskin – Raskin); a scholarship program (Bantuan Siswa Miskin – BSM); and a temporary unconditional cash transfer program (Bantuan Langsung Sementara Masyarakat - BLSM). The KPS currently covers 15.5 million households, which corresponds to the poorest 25 percent of the Indonesian population.

The method proposed in this paper confirms that current consumption is an important predictor of future consumption – and its variability. Furthermore, at a given level of consumption, certain household characteristics such as the average schooling level or the working status of the head are associated with higher vulnerability to poverty. Using this method in combination with the reference to the poverty line currently applied in Indonesia would therefore allow for fine-tuning of the definition of the target for social protection programs – i.e. vulnerable households.

Moreover, the method proposed here to estimate vulnerability is more appropriate for supporting the design and planning of poverty reduction policies and programs, especially when a recent panel data set is available. By providing a profile of vulnerable households and by disentangling characteristics associated with lower future welfare and those associated with more variability in that welfare, it allows for identifying population groups that can be targeted with specific interventions. For instance, households with an elderly head appear to have a higher variability in their consumption, at a given consumption level. This could suggest the establishment of an old-age grant program for those elderly that are excluded from the formal pensions system as a potential intervention to reduce poverty. Such information on the characteristics associated with a higher probability of future poverty is even more useful given the delay often occurring between the design, planning and implementation stages of social protection policies.

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.

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