

KNEKS

Komite Nasional Ekonomi dan Keuangan Syariah

Islamic Economy in ASEAN Countries During the Covid 19 Era

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OUTLINE

OVERVIEW OF GLOBAL & NATIONAL ISLAMIC ECONOMY



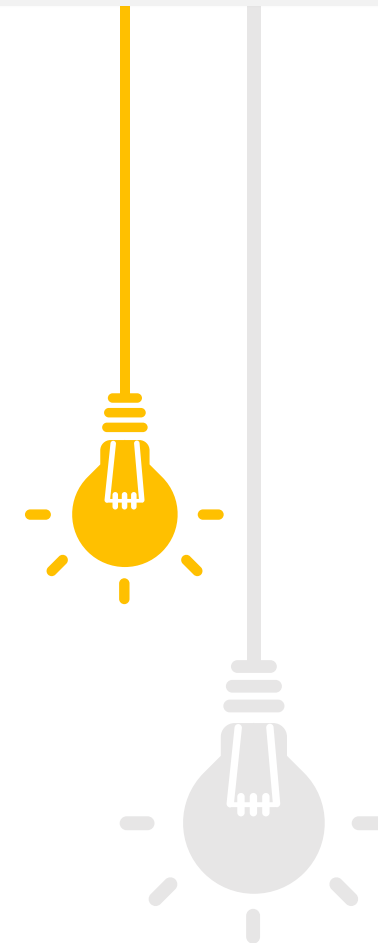
KNEKS AT GLANCE



THE ECOSYSTEM OF ISLAMIC ECONOMY AND FINANCE IN INDONESIA



THE IMPACT OF COVID-19 IN ASEAN COUNTRIES





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A.

**OVERVIEW OF GLOBAL AND NATIONAL
ISLAMIC ECONOMY**

INDONESIA ECONOMIC AND FINANCIAL DEVELOPMENT AT GLOBAL LEVELS

Based on data from *Global Islamic Economy Report 2019-2020*, Indonesia is in fifth position, previously only in the 10th position
GIE Indicator Score

- 1 Malaysia
- 2 UAE
- 3 Bahrain
- 4 Saudi Arabia
- 5 **Indonesia**

- Top 10 Halal Food**
1. UAE
 2. Malaysia
 3. Brazil
 4. Australia
 5. Sudan
 6. Pakistan
 7. Oman
 8. Brunei
 9. Turkey
 10. Iran

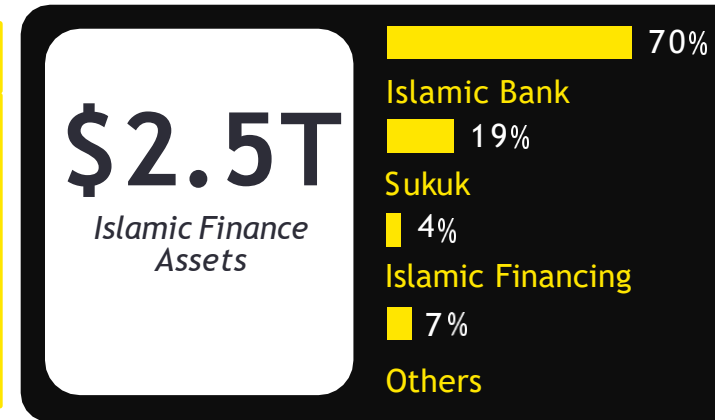
- Top 10 Modest Fashion**
1. UAE
 2. Turkey
 3. **Indonesia**
 4. Malaysia
 5. Singapore
 6. Italy
 7. Bangladesh
 8. Morocco
 9. India
 10. Sri Lanka

- Top 10 Media & Recreation**
1. UAE
 2. Malaysia
 3. Qatar
 4. Lebanon
 5. Bahrain
 6. Brunei
 7. Singapore
 8. UK
 9. Kuwait
 10. Azerbaijan

- Top 10 Muslim-Friendly Travel**
1. Malaysia
 2. UAE
 3. Turkey
 4. **Indonesia**
 5. Maldives
 6. Tunisia
 7. Azerbaijan
 8. Jordan
 9. Albania
 10. Thailand

- Top 10 Pharma & Cosmetics**
1. UAE
 2. Malaysia
 3. Jordan
 4. Singapore
 5. Egypt
 6. Iran
 7. Bahrain
 8. Brunei
 9. Turkey
 10. Azerbaijan

- Top 10 Islamic Finance**
1. Malaysia
 2. Bahrain
 3. UAE
 4. Saudi Arabia
 5. **Indonesia**
 6. Jordan
 7. Oman
 8. Kuwait
 9. Pakistan
 10. Qatar



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

LATEST IFCI SCORES & RANKS

COUNTRIES	2019 SCORE	2018 SCORE	CHANGE IN SCORE	2019 RANK	2018 Rank	CHANGES IN RANK
INDONESIA	81.93	24.13	+57.80	1	6	+5
MALAYSIA	81.05	81.01	+0.04	2	1	-1
IRAN	79.03	79.01	+0.02	3	2	-1
SAUDI ARABIA	60.65	66.66	-6.01	4	3	-1
SUDAN	55.71	17.09	+38.62	5	11	+6

Top IFDI Markets 2019

Country	IFDI Value	Ranking					
		IFDI 2019	Quantitative Development	Knowledge	Governance	CSR	Awareness
Malaysia	115	1	1	1	1	11	1
Bahrain	71	2	4	6	2	7	3
United Arab Emirates	70	3	6	5	3	6	2
Indonesia	68	4	8	2	9	13	10
Saudi Arabia	60	5	5	8	20	2	7
Jordan	57	6	17	4	13	1	13
Pakistan	56	7	13	3	7	17	4

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



- Access
- Communication
- Environment
- Services

Based on **Global Muslim Travel Index (GMTI) 2019**, Indonesia Halal Tourism is **rank 1** in 2019



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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

Development of Halal Industry

Development of Islamic Finance Industry

Development of Islamic Social Funds

Development and Expansion of Islamic Business Activities

1

Providing recommendations for national development policy and strategic programs in the Islamic economic and financial sector

2

Coordinating, synchronizing, and synergizing the formulation and implementation of Islamic economic and Islamic financial plan strategic programs

3

Formulating and providing the recommendations for problem solving in Islamic economic and financial sector

4

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

ORGANIZATIONAL STRUCTURE



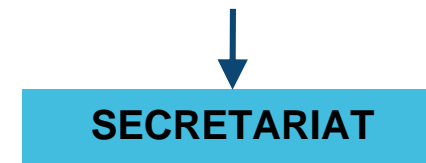
Chief



Vice Chief /
Daily Chairman

**KNEKS AS A CATALYST IN
ADVANCING ISLAMIC
ECONOMY AND FINANCE
TO STRENGTHEN
NATIONAL ECONOMIC
RESISTANCE**

Coordinate the implementation of functions of KNEKS
and provide direction



Assist formulation and implementation
of policies and preparation of strategic
programs



Evaluation and
monitoring of executive
management
performance

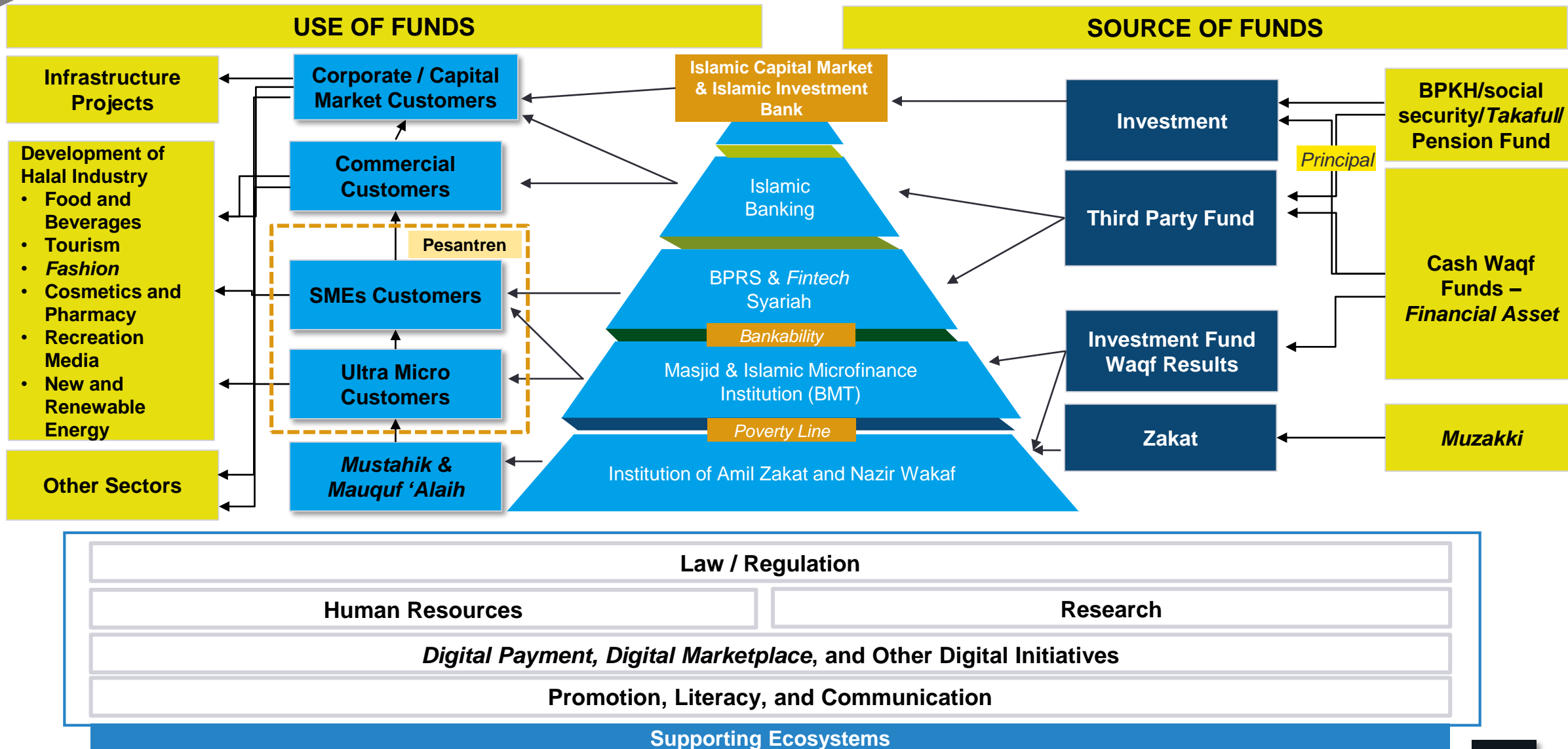


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C.

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

THE ECOSYSTEM OF ISLAMIC ECONOMY AND FINANCE IN INDONESIA





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D.

**THE IMPACT OF COVID-19 IN
ASEAN COUNTRIES**

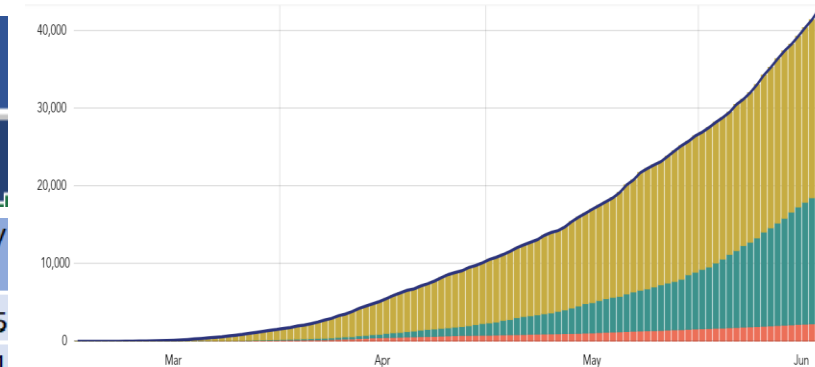
Total cases of COVID-19 globally and in Indonesia

National Trends

Coronavirus disease (COVID-19) outbreak situation globally

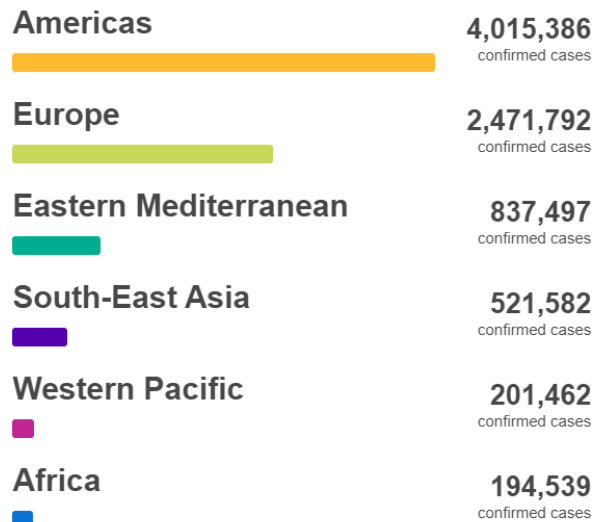


Coronavirus disease (COVID-19) outbreak situation in Indonesia



Case Comparison

WHO Regions



Rank	Province	Confirmed Cases	Confirmed Deaths	Recovery Cases
1	DKI Jakarta	9.349	563	4.445
2	Jawa Timur	8.533	651	2.381
3	Sulawesi Selatan	3.200	123	1.104
4	Jawa Barat	2.703	169	1.177
5	Jawa Tengah	2.346	121	860



- Patient in care
- Patient died accumulatively
- Patient is cured accumulatively

THE COVID-19 PANDEMIC HAS A SIGNIFICANT IMPACT ON INDONESIAN ECONOMY

The COVID-19 pandemic continues to spread globally

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.

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.

- 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.

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.

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

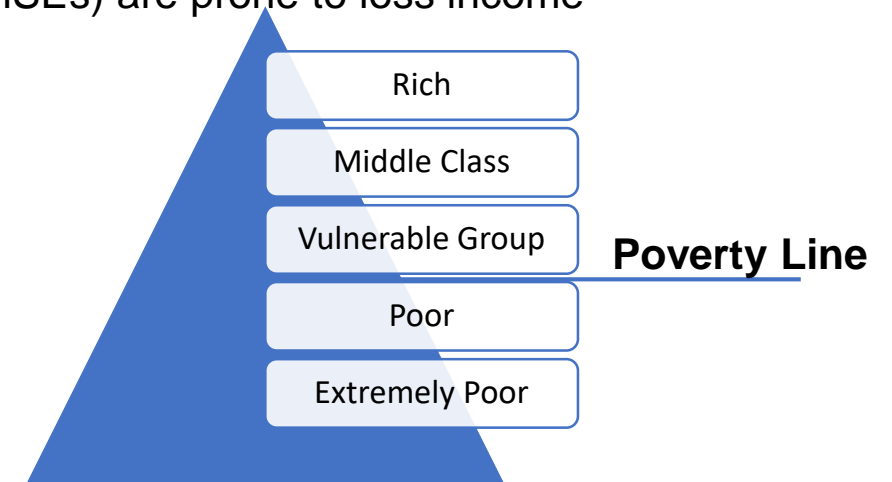
- **Life & General Insurance:** Increase in claims particularly for life & health insurance; decrease in premiums' payment including travel premiums from hajj & umrah; declining portfolios' value in capital market instruments.
- **Multifinance:** increase in restructuring activities, drop in financing 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

The COVID-19 PANDEMIC CREATED A DIRECT IMPACT ON THE DECLINE IN PEOPLE'S WELFARE, ESPECIALLY IN THE MICRO AND INFORMAL SECTOR

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

FISCAL SUPPORT IN FACING COVID-19

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 and Local Government IDR 106.11 trillion

Total: 598.65 trillion

National Income



10%

- 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

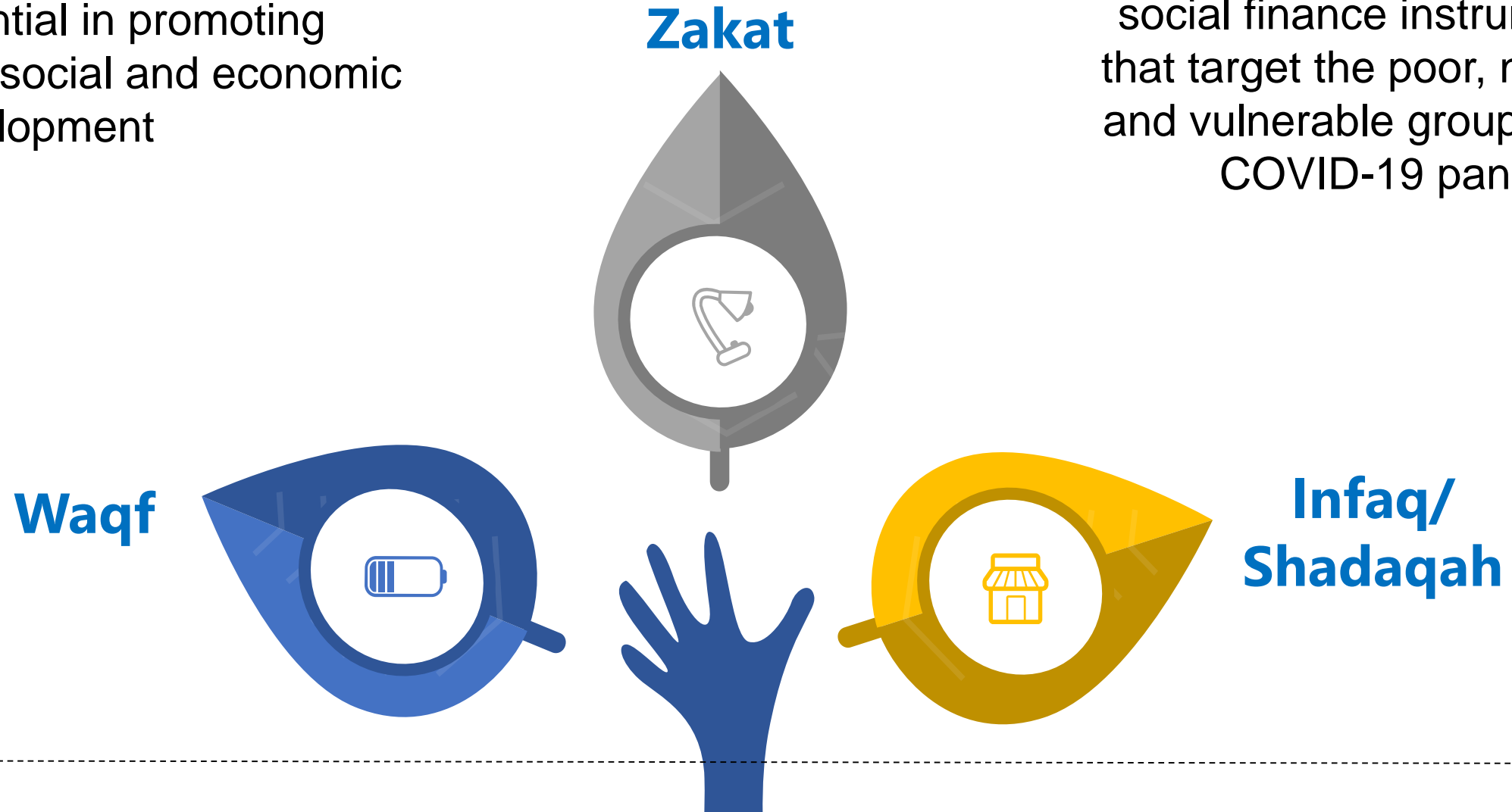


Islamic Economy and Finance could relieve government's burden *in facing Covid-19*

SOLUTIONS FROM ISLAMIC SOCIAL FINANCE

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 CAN REDUCE THE COST OF COVID-19

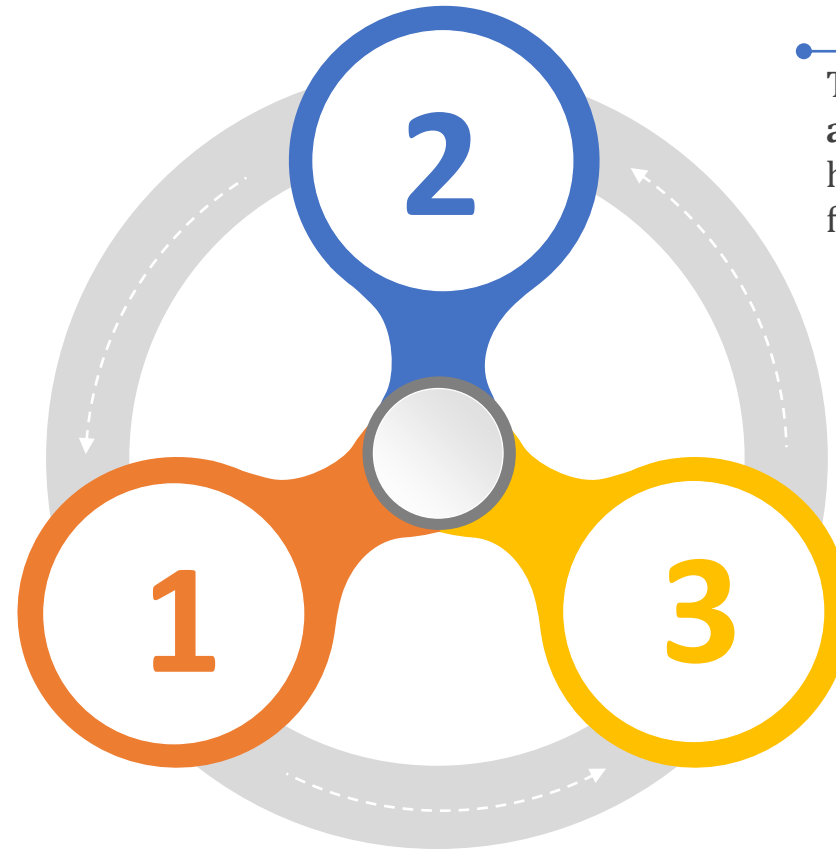
- Zakat has huge potential in **reducing government fiscal cost** in facing Covid-19 especially for *the basic needs of the poor, needy, and affected communities*
- Indonesia is one of the **most generous** countries in the world, this award is related to faith-based charity (World Giving Index 2019)
- 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

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**

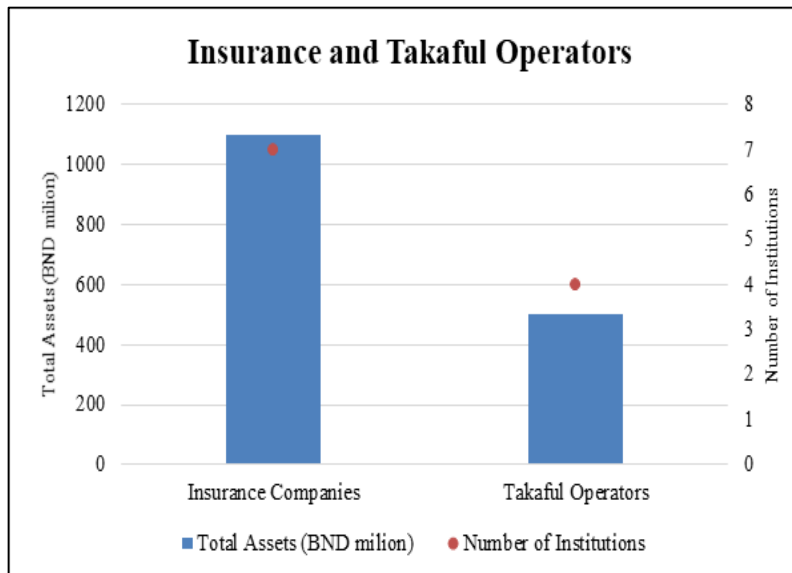
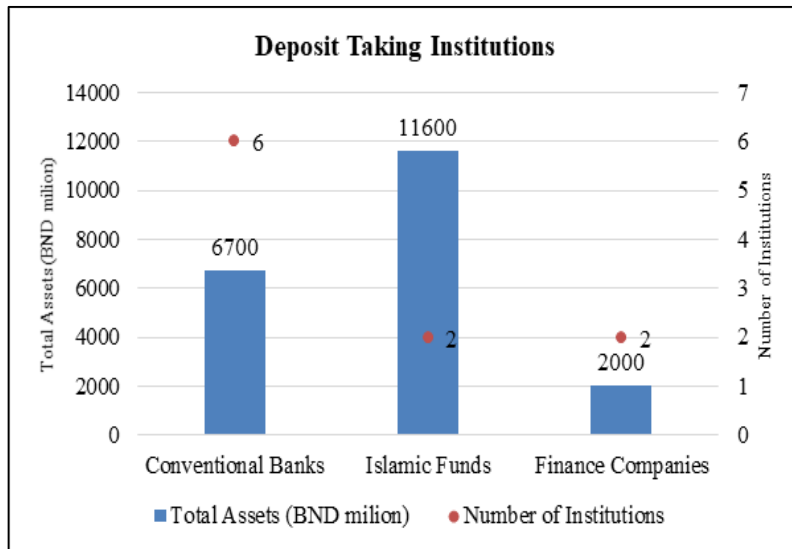


Second State-led Measure

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

<p>Deferment on repayment for financing for all business sectors</p>	<p>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</p>	<p>Delaying repayment of property/real estate financings for businesses and working individuals</p>	<p>Restructuring outstanding credit card debt into financings not longer than three years for private sector employees and the self-employed.</p>
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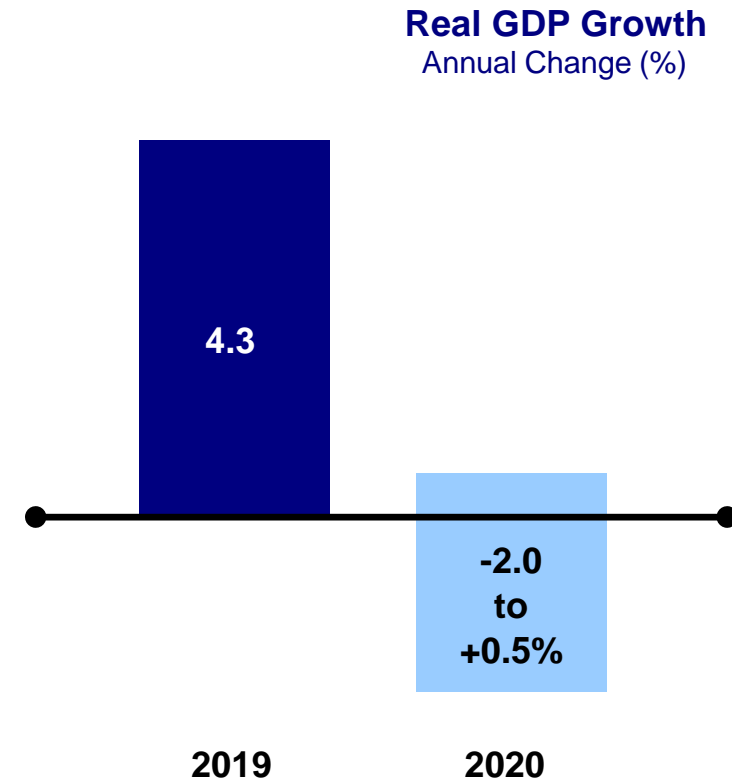
In this environment, Malaysia's economic growth is projected to be between -2.0% and +0.5% in 2020

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



EFFECTS ON ISLAMIC BANKING AND FINANCE

1

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.

2

Bankruptcies and foreclosures would rise.

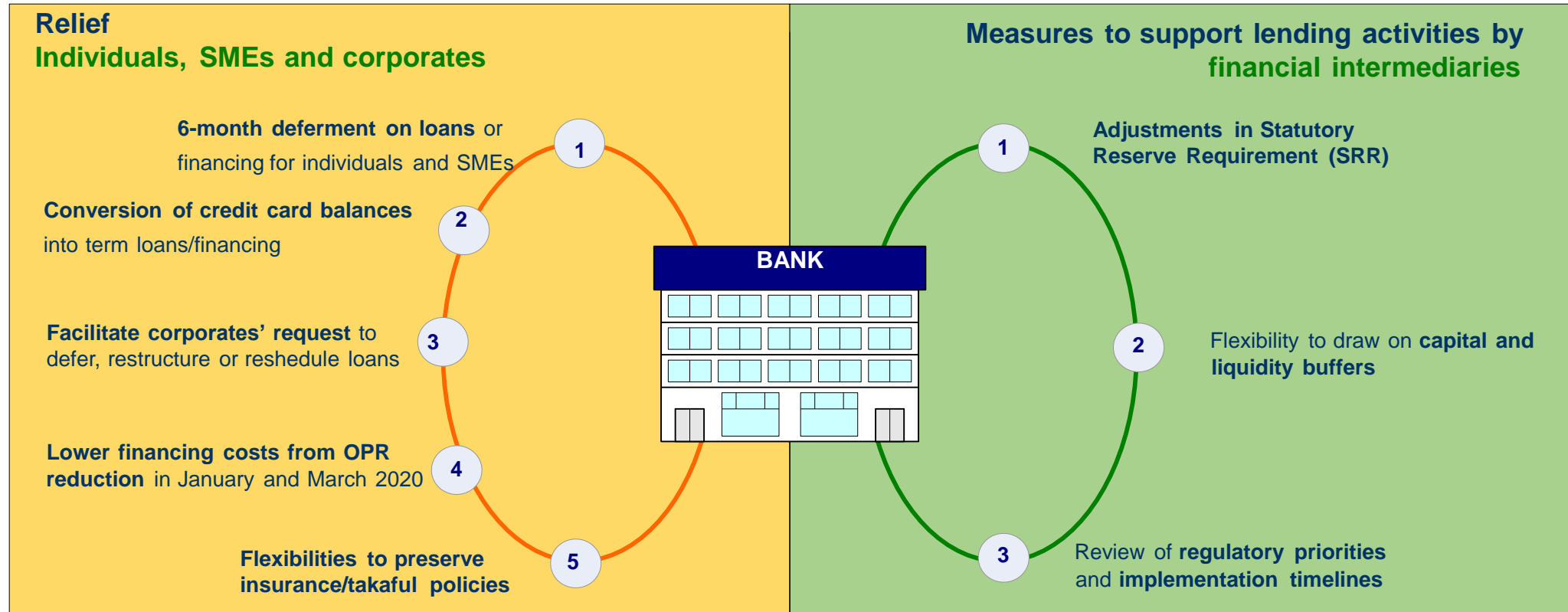
3

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.

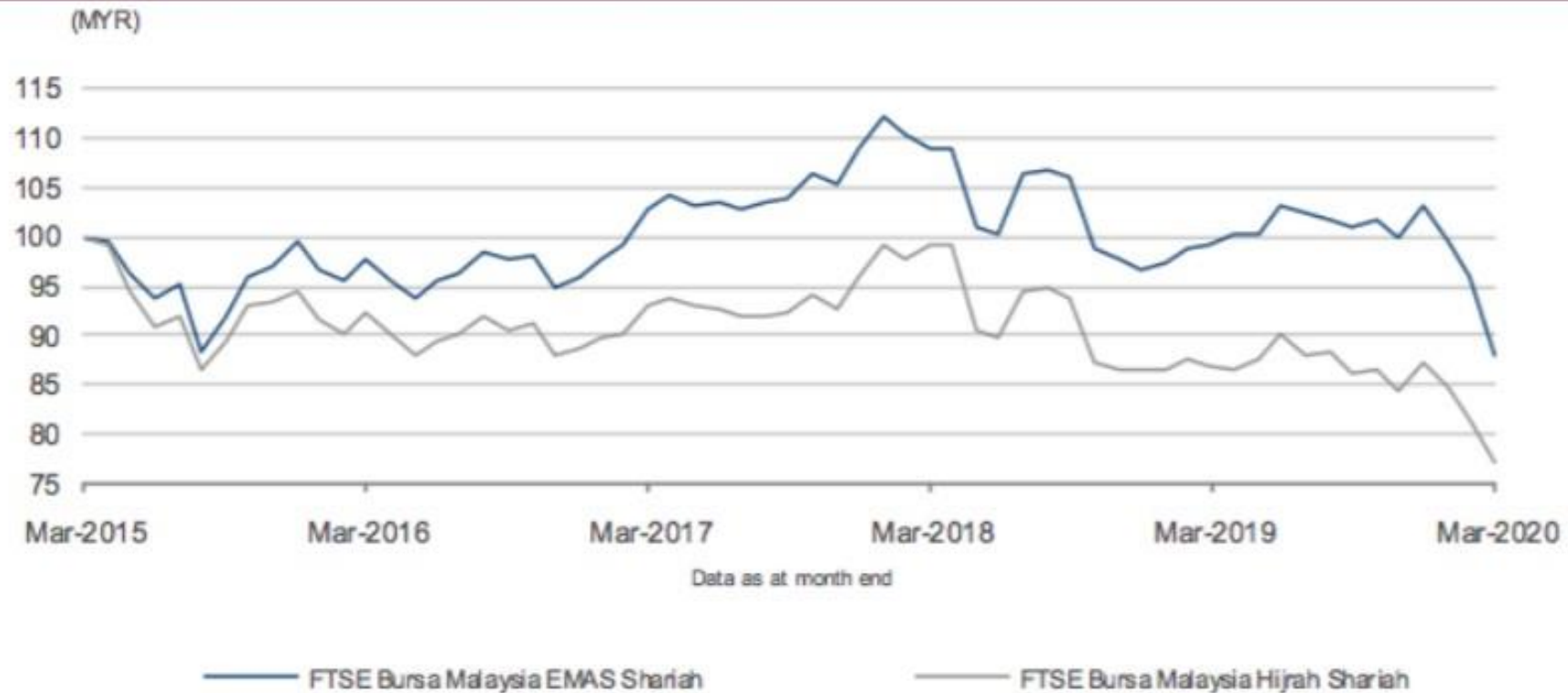
GOVERNMENT ECONOMIC STIMULUS

The Bank's priority is to ensure that the financial system continues to serve the needs of the economy



Source : Bank Negara Malaysia

5-Year Performance - Shariah Indices - Capital Return



Source: FTSE Russell Factsheet

PRIHATIN – ECONOMIC STIMULUS PACKAGE

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



to 2020 GDP growth

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.



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THANK YOU