INDONESIA: HIGHER INFORMAL EMPLOYMENT DURING THE ECONOMIC SLOWDOWN

The global crisis has resulted in a slowdown in economic growth

- Export-oriented economic activities have slowed considerably due to the crisis while private consumption has remained vigorous. Public consumption increased by 12.6 per cent in 2009, a record increase.
- Manufacturing exports declined by 27 per cent in the first half of 2009 as compared to the same period in 2008, an important decrease considering that exports of goods represented around 30 per cent of GDP in 2008.
- As a result, real GDP growth is estimated at 4.5 per cent in 2009, compared to 6.1 per cent in 2008.

Stimulus consisted of tax rebates, infrastructure projects and poverty reduction

- Total stimulus package for 2009: IDR73.3 trillion (US$7.6 billion), or about 1.4 per cent of GDP in 2008. The main elements were:
  - tax cuts for companies, workers and individuals (US$4.5 billion) and tax subsidies and import duties exemption (US$1.4 billion);
  - infrastructure projects and empowerment programmes for people living in rural areas including the improvement of highways, ports, bridges and irrigation systems (US$1.3 billion); and
  - diesel and electricity subsidies and loans for rural empowerment (US$0.5 billion).
- Government has allocated IDR300 billion for job training at vocational training centres (BLKs) and IDR110 billion for training in labour-intensive sectors.
- In addition, the government has significantly increased the state budget allocation for poverty alleviation programmes (IDR66 trillion in fiscal year 2009).
- The government’s efforts towards greening the economy included the provision of loans to industry at lower interest than prevailing market rates, allowing outdated equipment to be replaced with newer and more efficient technology.
- At the end of 2009, 93.1 per cent of the government’s stimulus package had been implemented. The stimulus package helped create over one million additional jobs in the Indonesian economy, of which around 94 per cent were in public works programmes.

Figure 1. Real GDP and merchandise exports by quarter, Q1 2008–Q1H 2009

Source: ILO, based on official sources. GDP in constant 2000 market prices. Data are not seasonally adjusted. Figures for 2009 are preliminary.
The unemployment rate continued its downward trend during the global crisis

- Between February 2006 and February 2009, the unemployment rate decreased by 2.3 percentage points, indicating an improvement in the labour market throughout the crisis period.
- The unemployment rate decreased from 8.5 per cent in February 2008 to 8.1 per cent in February 2009 despite a marked increase in the working age population and a rising labour force participation rate.
- Disaggregated by sex, the male labour force increased by 4 million people from 2004 to 2009 while the female labour force rose even more rapidly, by 5.8 million during this period.

### Numbers of casual workers in agriculture and unpaid workers rose with the economic slowdown

- The number of casual employees in agriculture, a category of precarious workers, increased by 3.5 per cent to 6.3 million workers between February 2008 and the same month in 2009.
- The number of unpaid workers rose by 4 per cent to reach over 18.6 million during this period.
- These trends suggest a deteriorating quality of employment, as both indicators exceeded pre-crisis levels in February 2009.

### Despite unemployment rate declines, informal employment has increased

- The share of informal employment in total employment, which had been declining prior to the global crisis, rose by 0.5 percentage points from February 2008 to February 2009, reaching 62.1 per cent. This indicator, which provides a measure of the quality of employment, nonetheless remained below pre-crisis levels in the latter period.
- The increase was about the same for men (0.5 percentage points) and women (0.4 percentage points) during this period; however, women’s informal employment as a share of their employment (65.8 per cent) remained considerably higher than men’s (59.8 per cent) in February 2009.
- The increase in the number of informal workers from February 2008 to February 2009 was about 2 million to 64.8 million workers. Female informal employment increases accounted for about 993,000 during this period.
Employment demonstrated considerable resilience across most sectors during the crisis

- Employment rose moderately between February 2008 and February 2009, by 2.4 per cent to over 104 million at the total economy level; this increase was reflected in growth across most sectors.
- The highest job growth was recorded in trade, restaurants and hotels (5.6 per cent) as well as community, social and personal services (6.5 per cent) during the period.
- Net job growth was more modest in manufacturing (1.4 per cent) and agriculture (0.8 per cent).
- Job losses were observed in construction (2.6 per cent decline) and transport and communication (1.1 per cent decline). However, the February 2009 figures do not yet capture all jobs created with the implementation of the stimulus package during the year.

![Figure 5. Employment by economic activity in selected sectors, February 2009 compared to February 2008](image)

Source: Badan Pusat Statistik. Data are not seasonally adjusted. Figures next to the bars indicate percentage change from February 2008 to February 2009.

Real wages in manufacturing decreased in 2008 and rebounded modestly in 2009

- Real wages in manufacturing decreased sharply in 2008 (4.3 per cent on average comparing the first half of 2007 and the same period in 2008) but rose modestly (0.8 per cent) in the first half of 2009 compared with the same period in 2008. Thus, they have not yet reached their pre-crisis levels.
- Real wages in hotels and restaurants have been more stable and as of September 2009 were close to real wages in manufacturing.

![Figure 6. Real wages in manufacturing and hotels and restaurants, March 2006 – September 2009](image)

Source: Badan Pusat Statistik. Data are not seasonally adjusted.

Remittances declined in 2009, but remain well above pre-crisis levels

- The number of Indonesian overseas migrant workers was estimated at 5.8 million in December 2008, representing about 5 per cent of the total number of workers in Indonesia.
- Some destination countries have reduced their quotas for foreign workers, and Indonesian workers abroad are likely experiencing higher levels of unemployment with the crisis.
- According to the World Bank, remittances by Indonesian workers abroad decreased by 2.3 per cent in 2009 to US$6,639 million. Nonetheless, remittances are well above pre-crisis levels, as the annual average for 2000–2006 was US$3,021 million.

![Figure 7. Remittances of Indonesians working abroad, 2006–2007](image)

Source: World Bank. Workers’ remittances, compensation of employees and migrant transfers, credit (US$ million). Figure for 2009 is estimated.
Poverty continued to decline during the global crisis

- Unlike the Asian financial crisis of 1997–1998 which had a marked effect on poverty in Indonesia, the current global crisis did not trigger poverty increases. In fact, the number of people living below the national poverty line slightly decreased in 2009, due in large measure to the various social assistance programmes for the poor and the resilient labour market.
- Poverty reductions were recorded in rural areas (7.1 per cent decline to 20.6 million people) and urban areas (6.7 per cent drop to 11.9 million).

Outlook in 2010 indicates stronger economic growth, but high levels of informal employment and improved social protection should remain priorities

- Indonesia has been one of the most resilient economies in the region to the impact of the global crisis, due to the effectiveness of the stimulus package and the robustness of its domestic market.
- The Indonesian economy is estimated to have grown by 4.5 per cent in 2009. Real GDP forecasts for 2010 range from 5 per cent (United Nations forecasts, January 2010) to 7.1 per cent (Asian Development Bank), depending mainly on assumptions regarding oil prices and global demand.
- Exports are expected to grow at pre-crisis annual growth rates (8-9 per cent) as demand for primary products imported by China, India and South Korea pick up in 2010.
- As part of the stimulus, infrastructure investment has not only helped create jobs, but will also improve the investment climate over the longer term.
- However, given the increase in informal employment, an important task is to enhance the impact of such infrastructure spending on employment quality.
- Another key policy issue is the critical need for unemployment insurance in Indonesia. Social protection is needed for the semi-skilled, in particular for women and persons with incomes close to the poverty line.