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Flood and Flight

A look at the impact of Jakarta's New Year deluge

- Indonesia's capital has had an unfortunate start of the year. Widespread floods of up to 2.5 meters have inundated multiple parts of the city, closed one of its airports, and claimed up to 43 human lives thus far.
- The immediate economic costs would not be known until the water recedes, but our ballpark estimates suggest that up to IDR 16 trillion (USD 1.2 billion) could be lost. Inflation may pick up as well, albeit from a decades-low base.
- More broadly, while the government may be even more keen to shift its capital city now, the flood is a reminder that the host of issues facing Jakarta – whose metropolitan area is home to 30 million Indonesians – remain acute.

A Sombre Start

It should have been a time for celebratory fireworks outside and quiet reflections inside. Alas, what greeted Jakarta's residents over the turn of the year was the unstoppable surge of floodwaters from seemingly all sides.

Lying on a low flat basin south of the Java Sea, with more than a third of its land area below sea level, flood is nothing new to Jakarta to be sure. Dutch colonial records noted at least three major floods afflicting what was then the Batavia region in the last decade of the 19th century alone, for instance.

However, the potential for severe flooding has increased even more as rapid urbanization was met with sluggish infrastructure build-up in more modern times. Courtesy of unchecked drawing of groundwater by its residents – many of whom lack access to piped water – the already-low grounds that the city builds itself on are sinking further, at a rate of 25cm annually, so much so that some estimates suggest that 95% of Jakarta may be submerged by 2050.

These mere projections have felt acutely real over the past few days, unfortunately. Canals and rivers that were supposed to divert rainfall to the Java Sea proved no match for the intense rainfall on New Year's Eve, and by the next day, footages of whole cars getting swept away by the torrents had circulated widely.

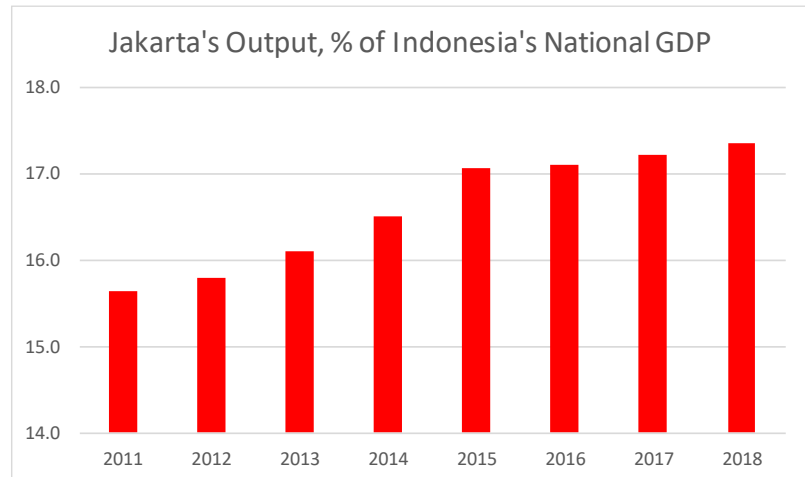
The actual immediate costs of the flood remain uncertain and would depend in part on just how quickly the flood waters recede and whether factories in the outlying areas are affected badly. Given the central role played by Jakarta region in the overall national economy, however, one thing we know is that it would not be insignificant.

In recent years, the region's economic growth has outpaced that of the national one, such that the share of overall national GDP has grown to over 17% as of end-2018, compared to 15.6% in 2011. In nominal terms, we reckon

Indonesia

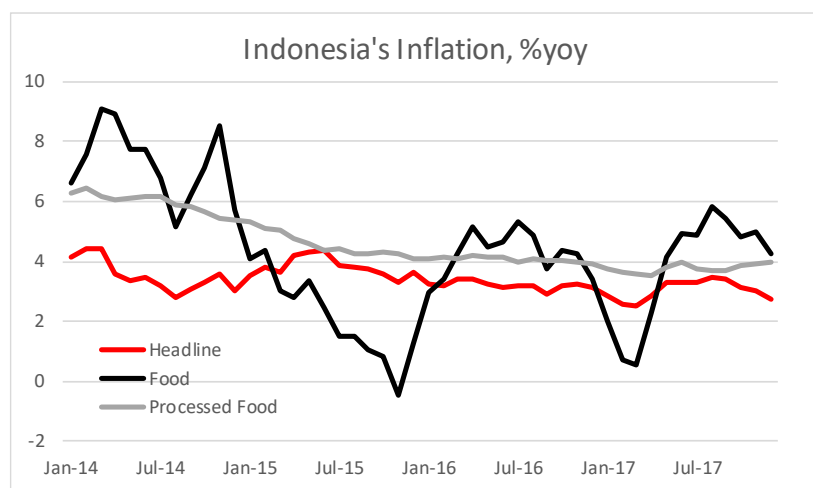
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that Jakarta generates about USD200bn worth of GDP in 2019. As a ballpark assumption, if 30% of output is lost over a one-week period because of the flood, it would translate to a considerable damage of close to USD1.2bn (IDR16tn). As a comparison, the last time Jakarta was hit by severe flooding in January 2013, KADIN (the Indonesian Chambers of Commerce) estimated the economic impact to be around IDR20tn.



Source: OCBC, CEIC, Bloomberg.

Moreover, there is also some risk of an inflation uptick, especially as the distribution of food supplies gets affected by disruption to transportation network. Given that Jakarta carries a 20.1% weight in the CPI basket by regional contribution – and that food has a 18.9% weight in terms of contributory component – the effect can be sizable if the situation is prolonged.



Source: OCBC, CEIC, Bloomberg.

The saving grace in this case is that the overall inflationary impulse in Indonesia has been mild of late, with headline inflation coming in at just 2.72% for December 2019, towards the low-end of Bank Indonesia's inflation

target. Hence, we remain comfortable with our view that inflation will come in at around 3.5% overall for 2020, i.e. not a big issue in the near term.

At a broader level, the episode could serve as another catalyst for the Jokowi administration to continue pursuing its goal of moving the capital city away from Jakarta to eastern Kalimantan. If nothing else, it highlights the concentration risk of having one disaster-prone city shoulder the heavy burden of being the political, economic and cultural centre of Indonesia.

Still, the reality is that the capital shift alone would be able to remedy the situation in the long run. While civil service and ancillary businesses would follow the move, it is doubtful that much of the commercial and industrial interests would follow suit in earnest. Despite Jakarta's obvious shortfalls, it still holds an entrenched advantage in what it has to offer given its long-time status as the centre of the country.

Hence, as much as the flood may cause the government officials to look more fondly at moving to the verdant outskirts of Kalimantan now, the administration still needs to focus on rectifying the situation in Jakarta. The long-suffering thirty million residents in the current capital city's broader metropolitan area deserve it.

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