Analysis of Government Policy in Economic Recovery During Pandemic in Indonesia

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Abstract: The Covid-19 pandemic affected both the health and economies of different countries, including Indonesia. This led to the issuance of several policies by the government to ensure economic recovery. Therefore, this study aims to examine the government policies implemented as a response to the impact of COVID-19. These policies are generally grouped into four, which include fiscal, monetary, macroprudential, and emergency liquidity. A descriptive qualitative method was used to analyze their performance in dealing with the economic crisis caused by COVID-19 using Nvivo12 Plus software. The results showed that the most widely used is fiscal policy, with 62%, followed by macroprudential with 20%, while monetary and emergency liquidity are 9% and 6%, respectively. This implies that fiscal policy is the main support for the Indonesian government’s economic recovery, especially in the economic recovery situation during the pandemic and after.

Keywords: Government Policy; Economic Recovery; Pandemic

Introduction
Economic recovery is often intertwined with the problem of poverty, which has become a crucial challenge for governments in different countries and a public issue prioritized in the Sustainable Development Goals (SDGs) (Sugiharti, Purwono, Esquivias, & Jayanti, 2022). This problem is dynamic, complex, and multidimensional, making it a development priority (Purwono, Wardana, Haryanto, & Khoerul Mubin, 2021). Meanwhile, the social protection system is one of the policy options to minimize poverty and an effort to realize the agreed sustainable development goals (Rassanjan, Harakan, Pintobtang, & Jermsittiparsert, 2019).

Van Leeuwen & Földvári (2016) showed that the Indonesian government has organized several absolute, relative, cultural, and structural anti-poverty programs. Meanwhile, Nursini (2019) explained that poverty alleviation efforts have also been established with several strategies and policies in the context of fiscal decentralization. It has been discovered that there are two strategies to alleviate poverty, which include 1) protecting poor families and groups of
people by meeting their needs through different fields; and 2) organizing a training program to empower those affected to undertake new poverty prevention efforts (Gunarsih, Sayekti, & Dewanti, 2018; Laurens & Putra, 2020).

COVID-19 affected both the health and economy, as well as the social situation of the communities in Indonesia (Musa, 2022; Suryahadi, Al Izzati, & Suryadarma, 2020). The pressure was also observed to have extended to the world economy (Kickbusch et al., 2020). Several studies found that the economies of certain countries, such as Indonesia, the United States, Japan, China, the European Union, and Singapore experienced negative global economic growth (Kickbusch et al., 2020; Li & Mutchler, 2020; Tamesberger & Bacher, 2020; Wang & Sun, 2021; Wolff & Ladi, 2020; Yap, 2020) due to the COVID-19 pandemic, which has also caused resource scarcity, social disorganization and dysfunction, mental health, crime, and increasing poverty as well as unemployment rates (Aktar, Alam, & Al-Amin, 2021; Wasserman, Iosue, Wuestefeld, & Carli, 2020).

Gibson & Olivia (2020) investigated the problem of the pandemic in terms of inequality and poverty in Indonesia and found a percentage decline in the country’s economy. An increase of 1.84% was recorded in the unemployment rate, which is 29.12 million people, representing 14.28% of the working-age population due to COVID-19. This was further explained to include 2.56 million previously unemployed, 0.76 million affected workforces (BAK), 1.77 million people unable to work, and 24.03 million people who experienced a reduction in their working hours (Indonesia, 2019).

This is the reason the Indonesian government issued policies to seek economic recovery and investigate the effect of rising unemployment (Gandasari & Dwidienawati, 2020; Olivia, Gibson, & Nasrudin, 2020). The government regulation in lieu of Law Number 43 of 2020 deals with the State Financial Policy and Financial System Stability for Handling the COVID-19 Pandemic and/or Facing the Threats That Endanger the National Economy and/or Financial System Stability. This regulation is concerning the state financial policies, which include regional financial and financing policies (Disemadi & Shaleh, 2020; Pati, 2020). Meanwhile, the financial system stability includes the policies for handling financial institution problems that threaten the national economy and/or financial system stability. The government has begun to make efforts to restore the national economy through the National Economic Recovery Program, which is in line with the declining economic performance leading to the disruptions in health and economic recovery spending. The aim is to maintain and improve the economic performance of business actors from the real and financial sectors during the COVID-19 pandemic and to ensure that the poverty rate does not increase massively (Muhyiddin & Nugroho, 2021).

There is an increasing interest in investigating the theoretical framework of policy response to the impact of COVID-19 on the economy. This ranged from several dynamics and factual facts related to the
pandemic, economic recovery, and poverty categorized into four aspects of fiscal, monetary, macroprudential, and emergency liquidity policies (Suksmonoahadi & Indira, 2020). These were further used to analyze government policy on economic recovery during the COVID-19 pandemic in Indonesia.

Fiscal policy is defined as the use of government revenue and expenditure, such as taxes, subsidies, government transfers, and spending, to maintain economic growth. The government’s role in managing state finances through the adjustment of revenues and expenditures with the APBN greatly affects national income, income distribution, job opportunities, and national investment (Maipita, Dan Jantan, & Razak, 2010; Nasiqoh, 2022; D. Silalahi & Ginting, 2020). This budgeting deals with the supply of public goods and resource mobilization, while the distribution of people’s income as a whole is an important element in creating prosperity for the country. Furthermore, fiscal policy regulates the equilibrium of the unemployment rate, price, or inflation rate (Ostrom & Ostrom, 2019; Priyono, 2016), as well as state revenues such as customs and excise, foreign exchange, tourism, income tax, land and building tax, imports, etc. According to Sayadi (2021), fiscal revenue also regulates state expenditure on such things as weapons, aircraft, government projects, the construction of public facilities and infrastructure, or other programs related to public welfare.

Monetary policy is a central bank’s action of controlling monetary quantities, such as the money supply, interest rates, and credit. In Indonesia, the policy is contained in Law No. 23 of 1999, which was later amended in Law No. 3 of 2004, and it states that Bank Indonesia, as the central bank, needs to achieve and maintain stability in the value of the rupiah, such as price stability (inflation) and the rupiah exchange rate (Hubara, Nurrahma, & Jannah, 2021). Expansionary monetary policy deals with overcoming unemployment by increasing people’s purchasing power; increasing the amount of money circulating in a recession or depression; and the practice of easy money policy; but when the money supply is too high, known as inflation, a tight money policy is implemented (Juho, Narayan, & Iyke, 2022; Latifah, 2015).

Macroprudential policy is an effort to monitor and evaluate the financial system as a whole with the ultimate goal of reducing crisis costs. Efendi (2019) elucidated the role of this policy in mitigating systemic risk, which includes the reduction of potential financial imbalances; building defenses against economic downswings; and identifying and addressing common exposures, risk concentrations, linkages, and dependencies among financial institutions that have the potential to transmit risks to the financial system as a whole (Qudraty & Suriani, 2017). The macroprudential policy has two dimensions to measure the existence of systemic risk, and these include the risk in different financial institutions interconnected through the balance sheet (cross-sectional dimension) and systematic risk that occurs from time to time between the financial system and the real economy through the credit-to-
GDP ratio, banks’ aggregate liquidity conditions, and monetary amounts (time dimension) (Akbar & Wibowo, 2021; Jeon, Yao, Chen, & Wu, 2022; Yoel, 2016).

Emergency liquidity is central bank money loans or securities that serve as collateral in the money market during the liquidity difficulties of the national economy, specifically in extraordinary situations and in times of crisis. This helps to overcome the temporary and extraordinary liquidity shortages in financial institutions caused by market pressures or company-specific pressures (Achmad, Sulistiyono, & Handayani, 2021; Karno Widigdo, 2020). Furthermore, it refers to funds outside of normal monetary operating policies to enable banks or financial institutions that are experiencing liquidity difficulties to repay their debts. Another study described it as a short-term funding loan that is intended for solvent banks that are experiencing temporary solvency but illiquid liquidity conditions with collateral requirements (Gauthier, Lehar, Pérez Saiz, & Souissi, 2015). It is important to note that emergency liquidity is not only provided for solvent banks that are experiencing temporary liquidity difficulties (this is considered a traditional, conventional, or classic ELA) but also given to insolvent banks in crises as requirements for collateral known as the haircut system (Duygan-Bump, Parkinson, Rosengren, Suarez, & Willen, 2013; Lastra, 2016).

The policy responses to overcome the impact of COVID-19 among all the government policies described above are grouped into four, which include fiscal, monetary, macroprudential, and emergency liquidity.

**Figure 1. Conceptual Framework**

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Types of Policies to Overcome Covid-19
- Fiscal Policy
- Macroprudential Policy
- Monetary Policy
- Emergency Liquidity
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Source: Suksmonohadi & Indira (2020)

**Method**

A descriptive qualitative method was used in analyzing the performance of the Indonesian government’s policies when dealing with the economic crisis caused by the COVID-19 pandemic. The analysis was conducted using Nvivo12 Plus software to describe the strategic steps applied in dealing with the pandemic to resurrect the country’s economy after the outbreak. The data collected was processed through the software and compared with predetermined indicators. Moreover, the coding process was based on the type of policy utilized in dealing with the pandemic, while classification
refers to the process of retranslating the encoded data and sorting with Nvivo cross-tabulation in order to compare each data point. The model used in Nvivo is called a five-step analysis, in which the final stage is displayed in the form of graphs and tables (Woolf & Silver, 2017).

**Result and Discussion**

The COVID-19 pandemic caused an increase in the percentage of poor people in most provinces in Indonesia, such that 22 out of 34 provinces had been affected, according to BPS data in June 2020. Poverty due to the pandemic continues to spread among community groups, and this has prompted the government to take strategic steps to suppress its increase.

**Figure 2. Percentage of Poverty Rate in Indonesia 2019-2021**

The data for 2019, 2020, and 2021 showed that the average poor population in Indonesia had reached 10.68%, indicating that poverty is still a serious problem. It was observed that Papua Province had the highest in the last three years because of its low development level in education, health, and welfare, thereby causing it to be the poorest area. Meanwhile, the results in 2019 revealed that Bali Province had the lowest poverty rate in three previous years. The increase in poverty experienced in almost all provinces in 2020 was due to the COVID-19 pandemic, but it has been reduced in 2021, specifically in 30 provinces of the country. This success came from the effort of the Indonesian government in dealing with the pandemic, which goes hand in hand with the country’s economic growth. It is concluded that the National Economic Recovery Program conducted in 2021 yielded good results due to the positive economic growth recorded.

**Figure 3. Indonesian Economic Growth Data (y-on-y) 2018-2021**

Source: BPS, 2021
The data on Indonesian economic growth in 2021 shows that the government has succeeded in making policies that have a positive impact on national economic conditions. It was observed that the country’s economy slumped at the beginning of the COVID-19 outbreak in Q2 of 2020 but was able to survive and grow positively in Q2 of 2021. Therefore, there is a need to analyze this policy that helped to recover the economy from the pandemic.

**Analysis of Government Policy in Indonesia's Economic Recovery Amid the COVID-19 Pandemic**

Suksmonohadi & Indira (2020) grouped policy responses for addressing COVID-19’s impact into four, which include fiscal, monetary, macroprudential, and emergency liquidity. The significant impact of the economic downturn due to COVID-19 has prompted the government authorities to take aggressive steps. The authorities also launched several stimuli as an addition to the policy measures that strengthen the health sector to overcome the impact of the economic downturn. These policy targets are very broad, ranging from households, corporations, MSMEs, and even local governments, as well as targeting different economic sectors.

![Source: Data processed through Nvivo12Plus](Figure 4. Types of Government Policies in Overcoming the Economic Crisis in the Pandemic)

The analysis showed that fiscal policy was the most widely used with 62%, followed by macroprudential policy with 20%, while monetary and emergency liquidity were 9% and 6%, respectively. This result is certainly interesting because the government was consistent with the use of policies globally, as published by Yale University, which shows that fiscal policy is the most used, followed by macroprudential, monetary, and emergency liquidity. It is important to note that South Korea and the US are the most aggressive countries in enforcing policies, particularly fiscal and macroprudential. Meanwhile, it has been discovered that fiscal policy is the mainstay of the Indonesian government’s economic recovery.

**Fiscal Policy during the Pandemic**
Fiscal policy is defined as the actions taken by the government concerning income and expenditure (D. E. Silalahi & Ginting, 2020). It is focused on the transfer effects in different important sectors, such as income and unemployment risk management as a response to the COVID-19 crisis (Bayer, Born, Luetticke, & Müller, 2020; Elenev, Landvoigt, & Van Nieuwerburgh, 2020; Faria-e-Castro, 2021). It is important to note that the analytical model in this present study is simpler than other models and allows for a broader fiscal policy with much richer settings in terms of governance heterogeneity. The economic crisis caused by the COVID-19 pandemic has prompted many governments to provide economic stimulus through fiscal policy (Bui, Dräger, Hayo, & Nghiem, 2022), relating to income and expenditure. This policy is observed in government regulation No. 3 of 2020 concerning the implementation of a recovery program applied to deal with threats and stabilize the financial system in order to save the national economy. An indicator of fiscal policy that has a positive effect is the realization of capital expenditures in Indonesia, which increased in 2021.

**Figure 5. Capital Expenditure Realization Of Provincial Government In Indonesia (thousand rupiahs) 2019-2021**

The capital expenditure data of 33 provinces in the last 3 years decreased in 2020 but increased drastically in several areas in 2021, such as Banten, South Sulawesi, West Java, Aceh, and West Papua. The BPS data showed that the realization of capital expenditure in Indonesia rose by 133.7% (q-to-q) and rose by 10.6 % (y-on-y). It was observed that the capital expenditure budget has a positive effect on poverty reduction in Indonesia when juxtaposed with poverty rate data.

Fiscal policy also creates a better investment climate for capital market players, especially investors, to enable the state to generate more revenue from business taxes (NISP, 2021). Realization of investment in Indonesia in the second quarter of 2021 between April and June increased by 16.2% compared to the same period in the previous year (Rp. 191.9 trillion), as published by the Ministry of Investment/Investment Coordinating Agency (BKPM), which reached Rp. 223.0 trillion. Furthermore, there was also data...
on cumulative investment realization for the period of January to June 2021, which reached Rp. 442.8 trillion. The percentage of investment realization in Java Island based on distribution was 52.4% with an investment value of Rp. 100.6 trillion, but for other parts of the country, it was 47.6% with an investment value of Rp. 91.3 trillion.

Khan (2007) describes how investment is one of the influential indicators for economic growth because it has a positive impact on the production process in an increasingly active business and also increases household consumption. Fiscal policies that promote investment have a positive correlation with the country’s infrastructure development, which aids economic recovery. BKPM (2021) discovered that an increase in national income or GDP is able to support the development efforts undertaken by the government. For example, investors were able to give positive sentiment to keep realizing their investments, whether they are in the preparation, construction, or production stage, because of the enactment of Job Creation Law No. 11 of 2020 and its operational guidelines in the form of PP No. 5 of 2021, which licensed the Implementation of Risk-Based Business. This led to several groundbreakings by the companies from April to June 2021 as the investment was successful.

The dominant fiscal policy issued by the Indonesian government also led to several budget realizations that had a positive effect on economic growth and national economic recovery, including the realization of personnel expenses, which increased by 2.7% in 2021, the increase in the realization of goods and services expenditures by 25.1%; and an increase in the realization of social assistance by 23.5%.

Policies on macroprudential, monetary, and emergency liquidity

The macroprudential policy received only 20% of all the policies implemented by the Indonesian government, while monetary and emergency liquidity received 9% and 6%, respectively. It was discovered that this policy maintained the stability of Indonesia's financial system amidst the pressures of the COVID-19 pandemic (Junaedi, Arsyad, Norman, Romli, & Salistia, 2021; Wismayadi, 2021). Indonesia's macro-financial conditions are overshadowed by the uneven recovery of the global economy, which is due to the magnitude of the fiscal and monetary stimulus as well as the development of different vaccinations and efforts to deal with the spread of the disease. The increase in COVID-19 cases due to the spread of the delta variant is very rapid and has increasingly colored the dynamics of global financial markets based on the Fed’s planned signal to normalize policy (tapering) at the end of 2021. It is important to note that maintaining financial sector resilience is the role of Bank Indonesia, the government, and relevant authorities in implementing shared responsibility in the financial sector. This is the reason various policies are synergized with extraordinary measures under the National Economic Recovery program to overcome the
adverse effects of the pandemic on the economy and financial system, promote intermediation, and accelerate national economic recovery. This synergy is pursued through formulation and implementation under the umbrella of the Financial System Stability Committee.

Conclusion
The policies implemented by the Indonesian government to address the impact of the COVID-19 pandemic were categorized into four, which include fiscal, monetary, macroprudential, and emergency liquidity. It was discovered that fiscal policy was the most widely used with 62%, followed by macroprudential policy with 20%, while monetary and emergency liquidity had 9% and 6%, respectively. Fiscal policy, therefore, became the main choice for economic recovery as indicated by its positive effects, such as an increase in capital expenditures during the second quarter of 2021 by 16.2% compared to the same period in the previous year. This enabled the government to increase its expenditures on personnel, goods and services, and the provision of social assistance.

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