

Indonesia's Economic Recovery After Contraction Due to the Covid-19 Pandemic

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ABSTRACT: This study aims to describe the recovery of the Indonesian economy after the contraction of the Covid-19 pandemic. The subjects of this research are Indonesian citizens affected by Covid-19. This type of research is descriptive qualitative research. The results of this study are that the Covid -19 Pandemic greatly affected the Indonesian economy in 2020. This pandemic resulted in a decline in all components of gross domestic product (GDP) except for government consumption expenditure. The gross domestic product (GDP) component has experienced a decline and even a contraction due to the Covid-19 pandemic that entered Indonesia so that Indonesia's economic growth is included in the crisis category.

KEYWORDS: Covid-19, Economy, Contraction

INTRODUCTION

Based on data from the Central Statistics Agency (BPS), Indonesia experienced a contraction in economic growth in 2020 of -2.07 percent. This has caused the Indonesian economy to experience deflation or a drastic decline in 2020 because economic development in Indonesia has an unstable movement. The changes that occurred were influenced by the Covid-19 pandemic.

The Indonesian government has issued various policies to reduce the chain of transmission of the Covid-19 pandemic but these policies have reduced the amount of household consumption (RT) and consumption of non-profit institutions that serve households (LNPRRT) even though these two consumptions have greatly affected the contraction in Gross Domestic Product (GDP). Consumption in Indonesia was out of control due to the situation that occurred and caused the economy in household consumption (RT) to decrease from 5.04 percent to -2.63 percent and consumption of non-profit institutions serving households (LNPRRT) to decrease from 10.62 percent to -4.29 percent.

Government consumption decreased from 3.25 percent to 1.94 percent. This is because the Government has reduced the allocation in the infrastructure sector in 2020 while the government has increased the budget for health in accordance with the Government's focus on pandemic management in Indonesia.

Not only consumption, investment also decreased from 3.25 percent to 1.94 percent. This decline affected the economy in Indonesia. The decline in investment was greater due to the effect of reduced employment. Trading activities, namely exports and imports with foreign parties, also decreased from -0.87 percent to -7.70 percent in exports and -7.69 percent to -17.71 percent in imports. Even though exports and imports experienced a drastic decline, it affected the value of net exports during an economic contraction.

Looking at the contraction in 2020, the government issued a policy strategy to restore the Indonesian economy. The government is optimistic about implementing policies consistently and building cooperation with all components of the nation. This is not only carried out by the Central Government but must be fully supported by the Regional Government as the main role in the movement of Indonesia's current economic recovery. Regional Governments play a strategic role in encouraging the acceleration and effectiveness of economic recovery as well as understanding the regional economic structure, demographics and socio-economic conditions of their communities when the Pandemic occurred. The Regional Government has the main benchmark for encouraging economic recovery, namely the policies that have been designed in the APBD.

Communities and business actors also have a strategic role in Indonesia's economic recovery movement. The government provides convenience in terms of fiscal policy and monetary policy, both of these policies can be welcomed positively by the public and business actors and can move forward according to the government's plan to restore Indonesia's economy which has experienced a contraction.

The government's policy is to allocate APBN funds for Indonesia's economic recovery with the aim of the economy recovering and people's welfare. This policy was carried out by increasing domestic consumption, increasing business activity and

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maintaining economic stability and monetary expansion. The three policies will be carried out simultaneously in synergy between fiscal policy holders, monetary policy holders and institutions

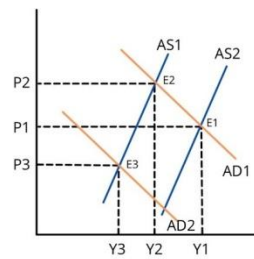
DISCUSSION

Indonesia's economic condition after experiencing a contraction

The Covid-19 pandemic greatly affected the Indonesian economy starting in the second quarter of 2020. This was due to regulations regarding Large-Scale Social Restrictions (PSBB) which resulted in lockdowns in several cities aimed at breaking the chain of transmission of Covid-19. This regulation causes an increase in economic decline in formal and non-formal companies. The economic downturn led to the emergence of Termination of Employment (PHK) caused by companies not being able to pay the wages they should have. Not only that, this decline has caused many companies to decide to go out of business or go bankrupt.

The contraction was due to a decrease in consumption. In addition to consumption for daily needs. Consumption income from the air transportation sector is very influential with the contraction experienced during the pandemic. The existence of PSBB regulations causes limited people to travel by air transportation. It can be seen that revenue in the air service sector has decreased by more than Rp. 200 billion. The limited use of air transportation has resulted in foreign and local tourists not being able to carry out tourist visits in Indonesia. This has had a huge impact on the city of Bali where quite a lot of their income comes from tourists who are visiting, as seen from hotel and restaurant revenues which have decreased by around 50 percent from usual.

Economists consider that the deflationary conditions in 2020 are very reasonable due to the Covid-19 pandemic. Deflation was not only caused by a decrease in the Consumer Price Index (CPI), but also due to an increase in unemployment. The fact is that Indonesia is experiencing deflation with the inflation rate at 1.68 percent where this figure is the lowest and far from the Government's target stated in PMK No.124/PMK.010/2017.



Based on the curve above, the pandemic caused Indonesia to experience a supply shock and a demand shock at the same time. The supply shock was caused by the implementation of the PSBB policy which had an impact on increasing unemployment. Due to the reduction in the need for labor, the AS1 curve shifts to the left to become the AS2 curve. The condition of demand stock is caused by the lack of clarity regarding the Government's actions in providing economic policies that can relieve the community so that the affected people experience a decrease in income. The decrease in income for the community resulted in their purchasing power decreasing. Under these conditions, investors must be very hesitant to invest until things return to normal. Demand stock conditions like this make the AD1 curve to the left to AD2. It can be seen in the above curve, the output condition that was initially Y1 became Y2 and ended at Y3 with output increasingly to the left, i.e. decreasing, meaning that state income in 2020 experienced a contraction in demand and dropped the economic surplus. It can be concluded that the current state of the Covid-19 pandemic has resulted in Indonesia's economic condition becoming very bad.

Central Government Policy in Economic Recovery

The policies issued by the Central Government are fiscal policy and monetary policy. This policy was realized together with the Regional Government and the community because both of them played a strategic role in carrying out policies smoothly aimed at restoring the Indonesian economy.

The government carried out fiscal policy in the hope of reducing the negative impact on the Indonesian economy caused by the Covid-19 pandemic. In addition, this policy aims to revitalize the business of business actors, including MSMEs. Fiscal policy has 3 (three) stimuli as a movement of change, namely:

1. Acceleration of government spending

The government is accelerating the disbursement of capital expenditures, accelerating the appointment of state treasury officials, carrying out tenders, accelerating the disbursement of social assistance spending and transfers to regional and village funds. The aim of this acceleration is to direct adaptation to new habits gradually, resolve post-pandemic problems, and strengthen reforms to get out of the middle income trap.

2. Relaxation of income tax

The government reduces the amount of tax by bearing income tax Article 21, exemption from import income tax contained in Article 22, reduction of income tax Article 25, and accelerated VAT returns. In addition to relaxing income tax, the

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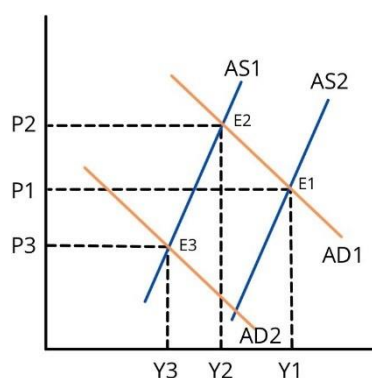
government simplified and accelerated the export-import process. Export-import acceleration is prioritized for leading traders, simplification of funds for reducing export and import restrictions (manufacturing, food and medical support), and export-import services through the national logistics ecosystem.

3. National economic recovery by implementing State Finance policies through state budget relaxation.

Relaxation of the state budget prepares for a deficit that can exceed 3 percent with the aim that in 2023 it will return to a maximum level of 3 percent. Relaxation will be related to spending allocations between organizations, between functions, and between programs as well as mandatory spending. Relaxation of allocations or reallocations of Regional Government Spending, Lending to LPS, Issuance of SUN and SBSN to be purchased by Bank Indonesia, BUMN, corporate investors and/or retail investors. The use of alternative budget sources includes SAL, endowment funds for education, and funds managed by the Public Service Agency.

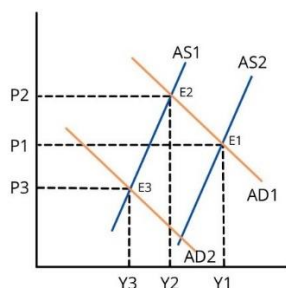
Monetary policy carried out by the Government is in collaboration with Bank Indonesia (BI) to participate in optimizing various accommodative monetary and macroprudential policies aimed at accelerating the digitization of Indonesia's payment system to support economic recovery efforts. The government implemented monetary policies as follows: continuing the rupiah exchange rate policy to maintain exchange rate stability in line with market fundamentals and mechanisms, continuing to strengthen the monetary operations strategy to strengthen the effectiveness of the accommodative monetary policy stance, strengthening the policy of transparency of prime lending rates (SBDK) with an emphasis on by increasing interest rates for new loans, extending the policy of reducing the value of fines for late credit card payments to 1 percent of the outstanding, accelerating the money market deepening program through strengthening the money market regulatory framework and implementing the Multimatching Electronic Trading Platform (ETP), especially the Rupiah and foreign exchange money markets, as well as facilitating organizing trade and investment promotions and continuing socialization on the use of Local Currency Settlement (LCS) in collaboration with relevant agencies.

Monetary policy aims to improve world economic performance in line with predictions, amidst declining global financial market uncertainty. This was due to a pandemic so that the Indonesian exchange rate experienced a drastic decline in 2020. However, the monetary policy provided by the government will strengthen the Rupiah exchange rate in line with the return of foreign capital inflows. It can be seen that at the beginning of the third quarter of 2021 the Rupiah exchange rate has strengthened by 0.49 percent on average and 0.30 percent on a point to point basis compared to May 2021 levels.



Based on the curve above, the LM curve is still influenced by the monetary policy implemented by Bank Indonesia to achieve stabilization of the Rupiah exchange rate during the pandemic. Fiscal policies provided by the Government such as government spending and tax incentives cause the IS1 curve to the right to become the IS2 curve and encourage an increase in output which shifts Y1 to the right to become Y2. This policy aims to increase people's purchasing power so that they can return the demand curve to normal, and this policy was given by the government in the hope of being able to boost Indonesia's declining economy so that it returns to normal.

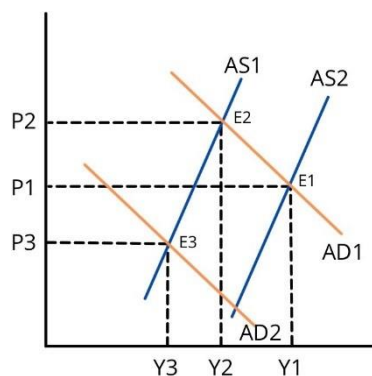
The Condition of the Indonesian Economy after the Existence of a Policy from the Central Government



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Based on the above curve, it shows that the AD-AS curve occurred when Indonesia experienced a contraction. When Indonesia experienced a contraction caused by a decrease in the amount of money in circulation, the aggregate demand curve shifted to the left. During an economic downturn there is a shift in the balance point from E1 to E2 and then slowly moving to E3.

Therefore, the government will carry out fiscal policies in the form of intensive taxes and spending to increase household consumption in the community. In addition, the Government continues to monitor monetary policy with the objective of increasing the money supply and lowering interest rates. The benefit of lowering the interest rate is increasing the attractiveness of investors to invest thereby helping the Gross Domestic Product (GDP) increase and recovering the Indonesian economy. The government must implement monetary policy in order to maintain the amount of money circulating in society and interest rates that affect investment.



Based on the curve above, the policies provided by the Government in the context of recovering the national economy from the impact of the Covid-19 pandemic have caused the Government to implement both fiscal and monetary policies. Implementation of policies with a deficit in the state budget increases government spending and provides tax incentives. This is intended so that people are able to fulfill their purchasing power so that the aggregate demand curve (AD1) shifts to the right to AD2. This causes a return to the initial output Y which has changed to Y1, indicating that there is an increase in income in the Indonesian economy. Even this policy greatly influenced price increases, inflation can be seen from the increase in P1 to P2. It can be concluded that policies can help Indonesia's economic recovery be like the beginning or even better.

CONCLUSION

The Covid -19 pandemic greatly affected the Indonesian economy in 2020. This pandemic resulted in a decline in all components of the gross domestic product (GDP) except government consumption spending. The gross domestic product (GDP) component has experienced a decline and even a contraction due to the Covid-19 pandemic that entered Indonesia so that Indonesia's economic growth is included in the crisis category.

The economic crisis can be seen from the contraction in gross domestic product (GDP) growth of 2.19 percent (y-on-y). The components that are very influential are household consumption expenditures and consumption expenditures of non-profit institutions serving households, both of which have decreased due to government policies regarding economic recovery efforts at this time.

Therefore, the Government implemented policies in various aspects to advance the Indonesian economy. The government is more focused on fiscal and monetary policies. The fiscal policies adopted have many variations, one of which is very influential tax incentives. Tax incentives make people feel relieved of their obligations and do not affect their economy so that people can still fulfill their daily needs as before.

Not only that, the Government cooperates with Bank Indonesia to advance monetary policy. This policy aims to reduce the amount of money in circulation and interest rates at banks. When interest rates decrease at the same time investors reinvest their holdings.

All policies that have been designed by the Government have the goal that income output in GDP can return to how it was before and experience an increase, not only that the other goal is that Indonesia will experience inflation again and the unemployment rate in Indonesia will decrease.

It can be concluded that the economy in Indonesia, based on current facts, is getting better because of the government's policy design. Indonesia experienced economic growth (GDP) of 3.69 percent throughout 2021, higher than in 2020 which had experienced a contraction. Indonesia's economic structure is spatially dominated by several provinces in Java Island as the largest contribution and the rapid increase in economic performance.

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