JOURNAL OF HUMANITIES, SOCIAL SCIENCES AND BUSINESS (JHSSB)
Volume 2 Issue 2 (2023)

MIX OF FISCAL POLICY AND MONETARY POLICY IN HANDLING COVID19

Kuscahya Wicaksana
State Civil Apparatus at the Regional Office of the Directorate General of Treasury, South Sulawesi Province
E-mail: kuscahya@kemenkeu.go.id

Abstract
The aim of this research is to analyze the fiscal policy mix through the allocation of funds in the APBN and monetary policy through various relaxations of banking regulations. This research is qualitative in nature and the data source taken is secondary data. Data collection techniques, namely data reduction, data display and drawing conclusions. The Covid-19 pandemic has had an unexpected impact on the world economy. Indonesia is also not free from its impact, state revenues which come partly from community activities and activities have decreased significantly along with restrictions on community activities. In this situation, the government is supported by economic theory that supports government intervention to restore the national economy implementing a mix of fiscal policies through the allocation of funds in the APBN and monetary policy through various relaxations of banking regulations. The policy mix which was implemented consistently and closely monitored resulted in very satisfactory improvements in economic and social conditions.

Keywords: *Covid-19 Handling, Fiscal Policy, Government Intervention, Monetary Policy, State Budget*

1. INTRODUCTION

All countries in the world, including Indonesia, are currently facing the challenge of jointly fighting the virus known as Corona Virus Disease 2019 (Covid-19) with its rapid spread. Worldometer (2020) reports that among the various countries affected by the Covid-19 virus, Indonesia is ranked 32 compared to the United States which is ranked first with the highest cases. This corona pandemic outbreak that has spread, in the end has very bad consequences for the world economy, including Indonesia. The combination of supply and demand side disruptions also caused a very deep global recession where the global economy contracted by up to 4.4 percent in 2020. This multidimensional crisis due to the Covid 19 pandemic came so quickly and exposed the fragility of a country in various fields (Modjo, 2020). Economic losses from the pandemic are estimated to be nearly US$14 trillion by 2024 (IMF, 2022).

In the economic sector, the pandemic caused by the Covid 19 virus has created a global economic downturn. Unlike earlier economic crises, this one affected both the demand and supply sides of the economy. As such, its impact on economic growth is felt in numerous nations. Diverse global financial institutions forecast that the Covid 19 epidemic will cause a 2.0% to 2.8% recession in the global economy in 2020, compared to a 2.8% average growth in 2019. In addition, it is anticipated that the Covid 19 pandemic will diminish global trade and investment flows by up to 30% and increase the volatility of global financial markets by up to 215%. It is expected that the substantial drop in diverse worldwide economic activities will result in at least 195 million job losses and between 420 and 580 million people sliding into poverty (Modjo, 2020).

The emergence of the corona virus pandemic in Indonesia affected various sectors in Indonesia, especially in the economic sector. especially when viewed from the side of tourism, trade and investment. The low investor sentiment in the existing market has made the market fluctuate in a negative direction. Covid-19 also had an impact on the decline in export performance and the global tourism sector. Weakening global demand resulted in worsening performance of global goods exports which fell by -2.8 percent qtq in Q1-20, and deepened to -15 percent qtq in Q2-20 (BPS, 2020). In the tourism sector, widespread travel restrictions and levels of social distancing caused the tourism industry's performance to drop significantly.

The decline in exports and international tourists has had an impact on weakening fiscal revenues, especially in countries that have a high dependence on trade and tourism (BI, 2020). Covid-19 caused government spending to increase sharply to help the health, business and household sectors, thereby widening the fiscal deficit. Various fiscal measures taken by the government include funding the emergency needs of the health sector, salary allowances, paid leave, providing loans and grants to companies. The IMF Executive Board estimates that the government's global budget deficit will exceed -6% of GDP in 2020. (from -3.7 percent of GDP in 2019). These targeted phases of fiscal and monetary policy are vitally required to stimulate the economy at this time. In addition, the slowdown in the global economy, especially Indonesia's export activities to China, also had a significant impact on the Indonesian economy (Nordiansyah, 2021)

Based on the background explanation above, the researchers conducted this research aiming to restore the national economy in implementing the fiscal policy mix through the allocation of funds in the APBN and monetary policy through various relaxations of banking regulations.

2. LITERATURE REVIEW

2.1. Theory of Government Intervention in the Economy

Government intervention in contemporary macroeconomics is greatly reliant on the situations of each country (Ahmad Nasrudin, 2022). There is no theory specifically used to decide how far the government intervenes in the economy. Based on existing practice, in general, government intervention can be classified into two groups, namely 1) sometimes it is enough as a regulator and supervisor and 2) sometimes it has to act as a provider and manager (provider and manager). In particular, providers and managers are divided into two functions, namely 1) service providers and public goods and 2) providers of community needs that cannot be met by the market. In general, it is known that the theory of government intervention was first presented by John Maynard Keynes (cermati.com, 2021).

2.2. Keynesian Theory and Its Development

In 1930, John Maynard Keynes, a pioneer of macroeconomics, published a book entitled "*The General Theory of Employment, Interest, and Money*" (Andar Ristabet Hesda, 2018). Through this book, Keynes proposed the necessity of interventionist government programs. This concept was inspired by the Great Drepession, which dramatically increased the jobless rate.

Keynes asserted that the most effective approach to get a country out of a recession (demand and supply conditions below optimal capacity) is for the government to use spending and investment policies to reposition the market's demand and supply. In addition, to limit social and environmental repercussions, the government must implement tax policies to discourage the sale of products that are hazardous to society and the environment. The government must also play a role in delivering public goods that are not demanded by the private sector. Hence, it must have revenue sources. This policy relating to government spending and revenue is now referred to as fiscal policy (*Teori Keynesian dalam Ekonomi*, 2020).

Keynes's theory serves as a framework for making economic actors aware of the significance of the government's involvement in the economy. In addition, government intervention policies in the economy are evolving and adjusting to market conditions. Using the quote from Mike Moffat's essay The Government's Role in the Economy (2017), "Moffat stated that the government's role in the economy is actually divided into three things, namely 1) to overcome market failures due to non-optimal fulfillment of market needs, including the provision of goods public, 2) controlling externalities such as the emergence of environmental impacts due to industry, and 3) encouraging competition/fair market competition".

2.3. New Keynesian Economics

New Keynesian Economics, acccording to Priyono & Ismail (2012) is one of the contemporary economic schools that develops Keynesian ideas in the field of macroeconomics. Thinking in new Keynesian economics uses the macroeconomic ideas of John Maynard Keynes. The development of new Keynesian economics began with a critique of macroeconomic ideas in neoclassical economics. In the 1930s, the theories put forward by Keynes included general theories about labor, interest rates and money. Its influence on academics and policy analysts was only felt in the 1960s. Criticism arose of Keynesianism by neoclassical economists in the 1970s. This then gave rise to the new Keynesian economics in the 1980s. New Keynesian economics is largely a critique of the neoclassical economic thought put forward by Robert Emerson Lucas, Thomas J. Sargent, and Robert Barro. The initial step in the formation of new Keynesian economic theories was to carry out the Keynesian revolution. The main difference between new Keynesian economics and neoclassical economics is in the theory of wage and price adjustments. New Keynesian economics believes that wages and prices influence each other so that voluntary unemployment can occur and monetary policy has a strong influence on economic life.

3. RESEARCH METHODS

In this research, the researcher uses library research with a qualitative method. Library research is the data collection process does not need to go directly into the research site but takes various reference sources that support this research. The data used in this research is secondary data. As secondary data sources, researchers have used many websites and other sources such as journals that cover economic-related data. Data collection techniques, namely data reduction, data display and drawing conclusions so as to get an overview of the conclusions regarding the study of literature to be developed in this study and to validate the data using triangulation of data sources.

4. RESULTS AND DISCUSSION

4.1. Research Results

4.1.1. Monetary Fiscal Policy Mix

1) Fiscal Policy Through the Role of APBN

COVID-19 has shaken the supply and demand sides and has had a domino effect on various sectors. Therefore, the government's presence and support is very much needed for rescue, such as in the health sector, increasing people's purchasing power in the form of social assistance, and supporting the business world and businesses to create jobs and as an engine of the economy. The form of the government's response from a fiscal policy perspective in this pandemic situation is to use the State Budget (hereinafter referred to as APBN) as a tool for recovery. The APBN plays an important role in achieving the government's goal of driving economic growth during a pandemic

Fiscal policy is implemented in a responsive and anticipatory manner. From the implementation side of the state budget, in 2022 several National Economic Recovery Programs (hereinafter referred to as PEN) that have been implemented since 2020 will still continue. Among them are PKH assistance spending, basic food assistance, village fund BLT, the Work-Intensive Program implemented by the Ministry of PUPR, health worker incentives, and assistance for paying BPJS claims from Covid-19 patients and most recently there are additional social assistance in the form of cooking oil BLT, BLT for fuel hikes, and wage subsidy assistance as a social cushion for the poor and vulnerable to poverty from the impact of the fuel subsidy transfer policy; as well as tax relaxation.

During the pandemic, the government implemented a policy of refocusing the spending budget to divert it to spending that supports accelerating economic recovery in the regions. The APBN continues its function in supporting efforts to overcome the Covid-19 pandemic by strengthening health services, social protection, and stimulating the national economy. In 2022, the Government has determined that fiscal policy will continue to support economic recovery and structural reforms. Economic recovery and social protection will continue to be carried out as an effort to strengthen the foundations to support the implementation of structural reforms. To support the implementation of structural reform policies while taking into account the risk of uncertainty due to the dynamics of the Covid-19 pandemic (Kementrian Keuangan Republik Indonesia, 2021).

Government spending has succeeded in becoming a parachute for the Indonesian economy so that it does not fall into a free fall and fall into a deep recession. In the second quarter of 2021 the realization of state expenditure grew relatively high (9.38%, yoy) in the first semester of 2021, both in the form of goods expenditures, social assistance programs, and capital expenditures which proved to provide a significant boost to the GDP component from the expenditure side, especially government consumption, society, and investment (Widyatama, 2021).

2) Monetary Policy

The monetary authorities reacted aggressively to the pressure on the financial markets and the economy. In order to minimize the impact of Covid-19 on the national economy, the monetary sector must establish a monetary policy that is consistent with fiscal policy. Therefore, the monetary authority must be able to maintain the rupiah exchange rate, regulate inflation, and offer economic stimulation. It is hoped that there will be a loosening of bank lending and an intensification of People's Business Credit (KUR) distribution. Maintaining price stability, ensuring the operation of financial markets, and ensuring the efficacy of monetary policy transmission are the objectives of the policies. The measures implemented consist of lowering interest rates, purchasing securities, intervening in the money market, blocking capital flows, and establishing swap agreements. After the onset of COVID-19, a very aggressive interest rate reduction policy was implemented. The policy of interest rate lowering was accompanied by additional policy measures. The central bank reduced the minimum reserve requirement and began an unconventional (quantitative easing/QE) strategy by acquiring government and private securities. Additionally, the purchase limit for securities was raised.

4.2. Discussion

4.2.1. Fiscal and Monetary Policy Mix Results

Minister of Finance Sri Mulyani said that to deal with the impact of this pandemic, the world has even allocated a very large budget, namely more than US$ 11 trillion or Rp. 159,500 trillion (exchange rate of Rp. 14,500/US$) in 2021 and for Indonesia the budget for handling Covid-19 2021 of APBN funds reached IDR 173.3 trillion (CNBC Indonesia, 2021). That figure has more than doubled from the 2020 budget which reached IDR 63.5 trillion. Even in the 2022 State Budget, the Minister of Finance Sri Mulyani Indrawati stated that she would continue to prioritize the use of the state revenue and expenditure budget or APBN for handling the Covid-19 pandemic.

1) Covid Data

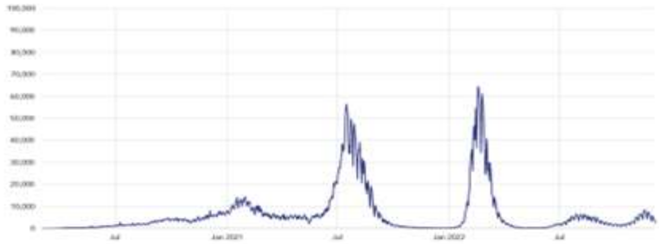

Figure 1. Daily progress of positive confirmed cases of Covid-19

From the table issued by the covid19.go.id website, it can be seen that until the third quarter of 2022 positive cases of Covid19 in Indonesia have decreased sharply, this is inseparable from various policies and allocation of funds provided by the government to reduce the spread of Covid19 until Indonesia is prepared to end the pandemic. The reduction in the spread of Covid cannot be separated from the successful implementation of the Covid-19 vaccination. Currently, Indonesia has injected 205 million doses of the first vaccine, 172 million doses of the second vaccine, 66 million doses of the first booster vaccine, and 730 thousand doses of the second booster vaccine (covid19.go.id, 2022).

2) Economy

Handling the impact of Covid 19 in Indonesia has produced very satisfying results and has even been recognized by the international community (CNBC Indonesia, 2020).

Figure 2. Gross Domestic Product Growth 2020-2022

Indonesia is one of the five countries with the highest number of vaccinations in the world and the handling of Covid-19 in Indonesia is well controlled. Meanwhile, Indonesia's economy in Q2-2022 also managed to grow 5.44% amid global challenges (www.ekon.go.id, 2022).The Covid19 pandemic is predicted to transition into an endemic. Vaccination coverage is targeted to increase significantly. Along with this, recovery in public consumption will be strongly encouraged and will act as a catalyst for economic recovery. The development of real sector indicators at the beginning of 2022 shows the continuation of economic expansion in terms of both consumption and production (Badan Kebijakan Fiskal, 2022).

5. CONCLUSION

The Covid-19 pandemic has affected the global economy in an unexpected way. As a result of the impact, community activities have been severely restricted and state revenues, which are derived in part from community activities, have declined dramatically. Government efforts to address this challenge are backed by economic theories that advocate for government involvement to revive the national economy through a combination of fiscal policies enacted through the distribution of monies in the state budget and monetary policies enacted through various relaxations of banking regulations.

The constant implementation and rigorous monitoring of the policy mix led to highly satisfactory improvements in economic and social situations. In light of the instability of the global economy, the execution of a mix of fiscal and monetary policies must continue to be carried out in a consistent manner, despite the fact that the outcomes have been quite satisfactory.

REFERENCES

Ahmad Nasrudin. (2022). *Intervensi Pemerintah: Alasan, Contoh, dan Dampak - Cerdasco*. https://cerdasco.com/intervensi-pemerintah/

Andar Ristabet Hesda. (2018). *Intervensi Pemerintah Dalam Perekonomian: Bagian I Ringkasan Sejarah*. https://www.djkn.kemenkeu.go.id/artikel/baca/12670/Intervensi-Pemerintah-Dalam-Perekonomian-Bagian-I-Ringkasan-Sejarah.html

Badan Kebijakan Fiskal. (2022). *Tinjauan Ekonomi, Keuangan, & Fiskal dan Fiskal (Penguatan Kinerja Ekonomi di Tengah Tantangan Pandemi)*. 57.

cermati.com. (2021). *Mengenal Investasi Keynes, Teori dan Faktor-Faktornya | Republika Online*. https://www.republika.co.id/berita/r3j9839016000/mengenal-investasi-keynes-teori-dan-faktorfaktornya

CNBC Indonesia. (2020). *Top Pak Jokowi! Ekonomi RI Terbaik Kedua Dunia Setelah China*. https://www.cnbcindonesia.com/news/20201124103216-4-204139/top-pak-jokowi-ekonomi-ri-terbaik-kedua-dunia-setelah-china

CNBC Indonesia. (2021). *Sri Mulyani: Biaya Penanganan Covid-19 Capai US$ 11 Triliun*. https://www.cnbcindonesia.com/news/20210727123741-4-263967/sri-mulyani-biaya-penanganan-covid-19-capai-us--11-triliun

covid19.go.id. (2022). *Presiden Jokowi Vaksin Booster Ke-2 | Covid19.go.id*. https://covid19.go.id/id/artikel/2022/11/24/presiden-jokowi-vaksin-booster-ke-2

Kementrian Keuangan Republik Indonesia. (2021). Kebijakan Fiskal Mendukung Pemulihan. *Tinjauan Ekonomi, Keuangan, Dan Fiskal*, 63–66.

Modjo, M. I. (2020). Memetakan Jalan Penguatan Ekonomi Pasca Pandemi. *Jurnal Perencanaan Pembangunan: The Indonesian Journal of Development Planning*, *4*(2), 103–116. https://doi.org/10.36574/jpp.v4i2.117

Nordiansyah, E. (2021). *IMF Prediksi Ekonomi RI Tumbuh 4,8% Tahun Ini - Medcom.id*. https://www.medcom.id/ekonomi/makro/JKRALAVk-imf-prediksi-ekonomi-ri-tumbuh-4-8-tahun-ini

Priyono, & Ismail, Z. (2012). Ekonomi Keynesian. *Teori Ekonomi*, 75-.

Teori Keynesian dalam Ekonomi. (2020). https://pluang.com/id/blog/glossary/keynesian-economy

Widyatama, A. (2021). *Optimalisasi Belanja Pemerintah – Fakultas Ekonomi dan Bisnis Universitas Brawijaya*. https://feb.ub.ac.id/id/optimalisasi-belanja-pemerintah.html

www.ekon.go.id. (2022). *Upaya Indonesia dalam Penguatan Ekonomi Pasca Pandemi dan Menghadapi Krisis Global Dapatkan Dukungan dari Pelaku Usaha Internasional - Kementerian Koordinator Bidang Perekonomian Republik Indonesia*. https://www.ekon.go.id/publikasi/detail/4499/upaya-indonesia-dalam-penguatan-ekonomi-pasca-pandemi-dan-menghadapi-krisis-global-dapatkan-dukungan-dari-pelaku-usaha-internasional