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Research Article

# Analysis of Burden Sharing Between the Government and Bank Indonesia to Meet State Budget Financing for Handling COVID-19 and National Economic Recovery Program

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## Abstract

This article will discuss the practices of government policies implemented in Indonesia, especially during the COVID-19 pandemic. Because this virus spreads rapidly from human to human, then of course the safety of the human soul is the most important thing. Therefore, the government responds to this situation by implementing various policies. This study aims to analyze fiscal policy, and monetary policy in an effort to anticipate the impact on the economy caused by the COVID-19 pandemic on the greater influence on Indonesia's national economy. This research uses descriptive qualitative research method which is a method to understand various concepts found in the research process, with content analysis techniques and literature research. The results showed that various efforts of the Indonesian government, namely fiscal policy needed in order to stabilize the economic system supported by monetary policy by the national monetary institution, namely Bank Indonesia and also actively supported by the role of the Financial Services Authority in Indonesia. In this case, the Central Indonesian Government and has been working to implement a combination of these policies in the national economic recovery program in order to eradicate the Nation of Indonesia from a larger economic crisis.

**Keywords**

Fiscal Policy, Monetary policy, COVID-19 Pandemic Outbreak, Economic Recovery.

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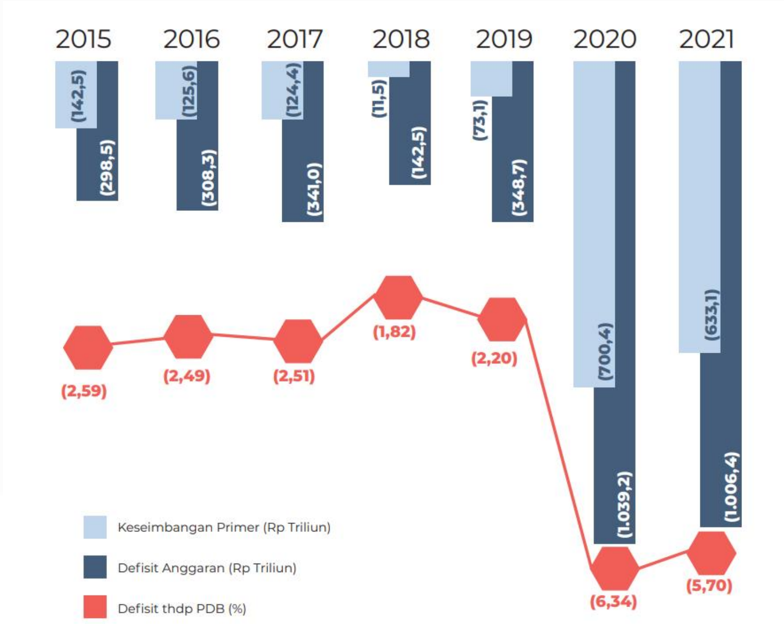
## Introduction

After more than a year Indonesia is grappling with the COVID-19 pandemic, not only has an impact on the health side, the COVID-19 pandemic has also slowed national economic activity, people's incomes have decreased, unemployment has increased, poverty rates have increased, and welfare rates have declined widely. Until the end of July 2020, formal and informal workers affected reached 35 million people, the poverty rate in March 2020 rose to 9.78% compared to March 2019 ( 9.41 % ), in terms of the number of impacts of COVID-19 has the potential to increase the number of poor people between 3.02 million to 5.71 million people. The increase in COVID-19 cases further impacted the slowdown in economic growth, decreased state revenues and otherwise led to increased spending and financing of the State. The Central Bureau of Statistics records that in the second quarter, Indonesia experienced negative economic growth or contraction of -5.32% Year on Year (YOY), much lower than the first quarter of 2020 of -2.97%. (YOY). The performance of tax receipts is also contracted, the ministry of finance noted that until the end of July 2020 tax receipts were minus 14.7% (YOY), down from RP 705.6 trillion to Rp 601.8 trillion. In the same period, the decline in tax receipts is in line with the sluggish performance of the economy over the past year. In other disis, state spending is increasing because it must support various sectors, such as health and social protection, and must support the business world through incentives. The Ministry of Finance noted that the deficit in the State Budget (APBN) until July 2020 reached Rp 330.2 trillion or 2.01% of Gross Domestic Product (GDP), state revenues only reached Rp 922.2 trillion. while the state spending position increased to Rp 1,252.4 trillion. in line with the National Economic Recovery program (PEN) where the PEN program basically aims to protect, maintain and improve the economic capabilities of businesses both in the real and financial sectors, including micro, small, and medium enterprises (MSMEs).




2021 Apbn Deficit in the range of 5.70% of GDP
**Source :** Ministry of Finance

The impact of the COVID-19 pandemic requires the government to make extraordinary efforts, both in the health sector, and in the economic field. Macro-wise, these steps can be seen in terms of fiscal and monetary policy that will be outlined in this paper.

## Identification of Problems

Pandemics occurring in various countries in the past year have brought the world economy into the abyss of the inevitable recession. The World Bank states that COVID-19 will bring 92% of the world's countries to the brink of recession. To date there have been at least 14 countries confirming the recession, including the United States, Germany, France, Italy, South Korea, Spain, Hongkong, Singapore, philippines, United Kingdom, Malaysia, Poland, Thailand, and Japan. The World Bank in its Global Economic Outlook report has forecast the global economy to decline by 5.2% this year as a result of the COVID-19 pandemic. The World Bank also mentioned that the recession was the deepest recession since the Second World War. Indonesia as a country that is also affected by COVID-19 is now experiencing a deep contraction. Currently, Indonesia's economy is in a recession zone due to negative growth in the second and third quarters of this year. Indonesia's economy has contracted by 5.32%, and for the third quarter of 2020 the Minister of Finance has ensured that Indonesia's economic growth will be in the range of -2.9% to -1%. However, since some time ago, the government has anticipated a crisis by allocating funds up to Rp 695.2 trillion for the National Economic Recovery (PEN) program. According to the World Bank, Indonesia's social protection programs during the pandemic were effective. This is evident from the assistance that managed to reach about 90% of the total 40% of Indonesia's poor.

# Literature Review

## Government Policy

Each expert is not the same in giving an understanding of what fiscal policy means. According to Lyulyov et al. (2021), fiscal policy is the process of determining government taxes and expenditures in order to help minimize fluctuations in the economic cycle and help to maintain economic growth, high employment opportunities, and free the economy from high or volatile inflation. Meanwhile, according to Meer and Müller (2021), fiscal policy is the use of the state budget to achieve several macroeconomic goals, such as full employment opportunities, sustainable long-term economic growth, and price level stability. From some definitions of fiscal policy from experts, it can be known some important aspects that usually must exist in a fiscal policy, namely: 1) mobilization of resources; 2) acceleration of economic growth; 3) increased employment opportunities; 4) minimization of inequality; and 5) price stability (Riza & Wiriyanata, 2021). If observed, in the definition of fiscal policy contained tasks and functions that should be carried out by a country (government) with the people as the main target of the policy. Thus fiscal policy is an important instrument for most countries in the world to protect and prosper their people. The majority of countries, both developed and developing countries, the five aspects of fiscal policy above have become routine tasks with a focus of attention that varies according to the conditions of the country. In developed countries where economies and administrative systems are well established, fiscal policy is the main instrument for mobilizing resources and increasing employment opportunities. In this group of countries, economic growth is generally stagnant (mature), income inequality can already be overcome, and price volatility is almost non-existent. Meanwhile, in developing or poor countries, fiscal policy is still focused on instruments to pursue economic growth, reduce income inequality, and overcome price volatility as a priority. Generally, the most dominant source for funding various programs and projects for fiscal policy implementation is the state budget (APBN). It can even be said that the State Budget is the main motor driving fiscal policy. Without the State Budget, the state cannot do much to achieve fiscal objectives. The larger the budget, the greater the government's ability to implement its fiscal policies. The term fiscal policy is raised to distinguish it from monetary policy terms. Both are a duo of state policies that run in parallel (simultaneously) because each has a different domain or region setting. Monetary policy has a regulatory area related to the financial system that can affect the macroeconomic conditions of a country. Economic variables of concern to this policy are generally the amount of money in circulation, domestic currency exchange rates, interest rates, inflation rates, foreign exchange traffic, and supervision of the banking industry. While outside these variables are generally the domain of fiscal policy. If fiscal policy is based on government-run state budgets, monetary policy rests heavily on state foreign exchange and public funds in the financial system. Monetary policy is in practice run by central banks.

## Economic growth

Economic growth is a process of quantitative, qualitative and structural change, with a positive impact on the economy and on the standard of living of the population, which means an increase in the national income per capita. Although economic growth is said to be an increase, in reality, economic growth can be positive, zero and negative. Economic growth is positive growth if the increase in macro indicators is higher than the increase in the average population growth. If there is a similarity between the average growth of the macro indicators and the population, the economic growth is equal to zero. Meanwhile, if the average population growth is higher than the economic growth, the economic growth will be negative (Haller, 2012). Negative economic growth is caused by several constraining factors, such as excessive population, inefficient use of resources, inadequate resources and infrastructure, excessive government intervention, and institutional and cultural models. High economic growth indicates that the use of resources has been efficient, thus increasing productivity. An increase in productivity means an increase in the production of goods and services which has an impact on reducing the number of unemployed people and increasing the welfare of the community (Haller, 2012).

### Government Expenditures

Government spending refers to spending money on the public sector. The expenditure is used to obtain goods and services and services that include education, social protection and defense. If the government directly fulfills the needs of individuals or society, then these goods and services are classified as government final consumption expenditures. If the goods and services are future uses, they are classified as government investments. Government spending can positively affect economic growth. With government spending there will be an increase in infrastructure which will encourage private investment to prepare qualified staff and technological advances so that demand is created. Hence, government spending is a policy tool designed to influence economic growth (KARHAN).

## Research Objectives and Benefits

### Research Objectives

Based on the description stated in the background above, this study aims to analyze fiscal policy, and monetary policy in an effort to anticipate the impact on the economy caused by the COVID-19 pandemic on the greater influence on Indonesia's national economy. This research uses descriptive qualitative research method which is a method to understand various concepts found in the research process, with content analysis techniques and literature research.

### Benefits of Research

With this research is expected to add to our insights about the collaboration of policies that the government in handling the COVID-19 outbreak and know the national economic recovery program. and expected advice from readers for Indonesia's economic recovery, in order to be better in the future with stable economic growth supported by economic and political stability, in order to eradicate the Nation of Indonesia from a deeper economic crisis.

## Results and Discussions

### Legal Umbrella

The government responded to the impact of COVID-19 by issuing a Replacement Government Regulation (PERPPU) Law No. 1 of 2020 on state financial policy and financial system stability for the handling of pandemic COVID-19 and/or in order to face threats that endanger the national economy and/or financial system stability. The regulation was then enacted into Law No. 2 of 2020. Broadly speaking, the Regulation regulates the state's financial policy and the stability policy of the State's financial system. The State's financial policy includes state revenue policy including policies in the field of taxation, state spending, regional spending, and financing policy. While financial system stability policy includes policies for handling financial institution problems that endanger the national economy and/or financial system stability. In the field of fiscal regulation allows fiscal policy to be flexible, namely deficit can exceed fiscal rules, above 3% of GDP at the latest until the end of fiscal year 2022. The regulation above also gives additional authority to Bank Indonesia, deposit insurance agencies, and financial services authorities. The financial system stability committee is authorized to handle financial system stability, including providing short-term liquidity loans to systemic and non-systemic banks. In addition, Bank Indonesia is authorized to purchase government bonds or long-term State sharia securities in the primary market. Corporations are also given the opportunity to obtain funding through the resale of bonds (repo). Initially the government allocated a total of Rp 405.1 trillion for the handling of covid-19 in the field of health and national economic recovery, furthermore, the government summarized various policies in tackling the impact of COVID-19 in a program called National Economic Recovery (PEN). The government allocated state budget funds for economic recovery of Rp 695.2 trillion. This policy is contained in Government Regulation No. 23 of 2020 signed by the president. The goal is to protect, maintain and improve economic capabilities. The amount was lowered in 6 budget posts, namely health, social protection, business incentives, MSMEs, corporate financing, as well as the ministry/institution sector. The approach in the National Economic Recovery program (PEN) is to provide comprehensive stimulus, both in terms of demand and supply. In terms of demand, stimulus aims to maintain the purchasing power of the community, the form is a social protection program both an extension of the exixting program and new programs. Exixting programs include family hope programs, grocery cards, and pre-employment cards. Meanwhile, the new programs consist of jabodetabek food aid, non jabodetabek cash bansos, village fund BLT (Direct Cash Assistance), and electricity discounts. In terms of supply, tax incentives and support for the business world is aimed at maintaining business activities while increasing national production. To achieve this goal, there are 3 policies, namely increasing consumption in energy, increasing business activity, and maintaining economic stability and monetary expansion. The policy is carried out simultaneously with synergy between fiscal policyholders, monetery policyholders and related institution.

## Economic / Fiscal Stimulus

To mitigate the economic impact of COVID-19, the government provides several incentives and economic stimulus to the community, the business world, and financial markets. The first phase of economic stimulus policy is focused on strengthening the domestic economy in 2020 through spending, and The budget provided amounted to Rp 10.3 trillion. The second stimulus is focused on maintaining people's purchasing power and ease of export – import. The budget prepared amounted to Rp 22.9 trillion. Fiscal policy in stimulus package II consists of four things:

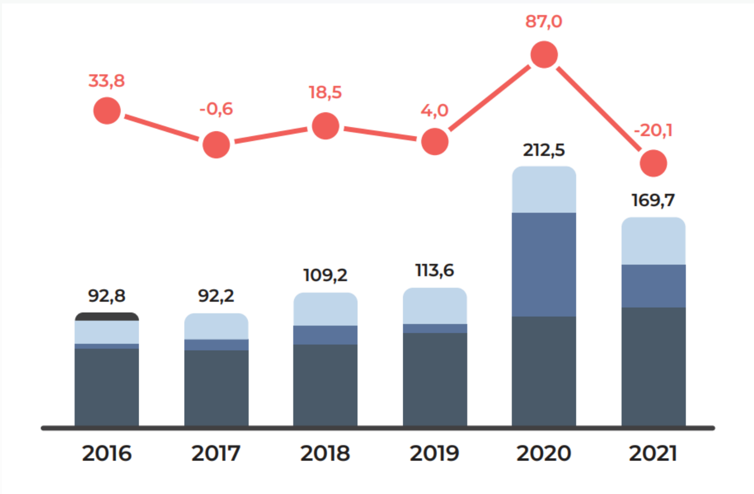
1. Relaxation of income tax article 21 (PPh article 21).
2. Relaxation of income tax article 22 imports (PPh 22 imports).
3. Reduction of income tax article 25 (PPh 25).
4. Restructuring of value added tax (VAT) accelerated (preliminary guidance).


2016 – 2021 tax revenue.

For the 2016 – 2019 period, tax revenue grew by an average of 6.4% per year in line with increasing economic performance. In 2020 taxation is estimated two contracts 9.2% as a result of the COVID-19 pandemic. In 2021, it is targeted to grow by 2.9% in line with increased economic activity. In addition to fiscal bias, the government also prepared a non-fiscal policy package that aims to provide encouragement to export-import activities. The non-fiscal stimulus includes four things:

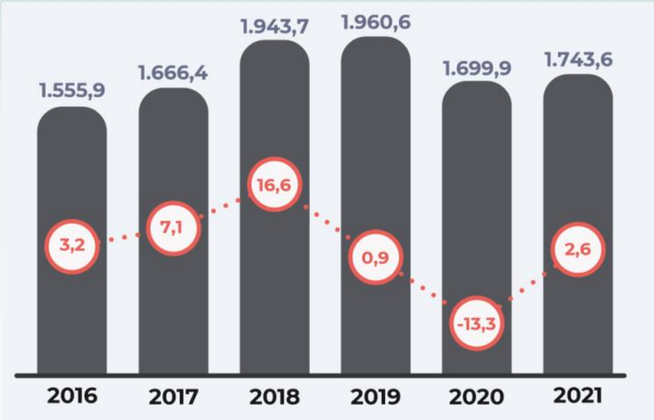
1. Simplification and reduction of the number of prohibitions and restrictions (LARTAS) export activities aimed at improving the smooth export and competitiveness.
2. Simplification and reduction of the number of prohibitions and restrictions (LARTAS) import activities in certain commodities, including manufacturing, food and health / medical support, this policy aims to improve the smoothness and availability of raw materials.
3. Acceleration of export and import process for reputable traders, namely companies related to export-import activities that have a high level of compliance.
4. Improvement and acceleration of export process services - import and supervision mealui development of the National Logistic Ecosystem (NLE).

In the health sector, interventions were made for the handling of COVID-19 and subsidies dues BPJS. In the field of social, the addition of social safety net, namely the addition of distribution of PKH, bansos, pre-employmentcards, electricity tariff subsidies and other social safety jarring programs.

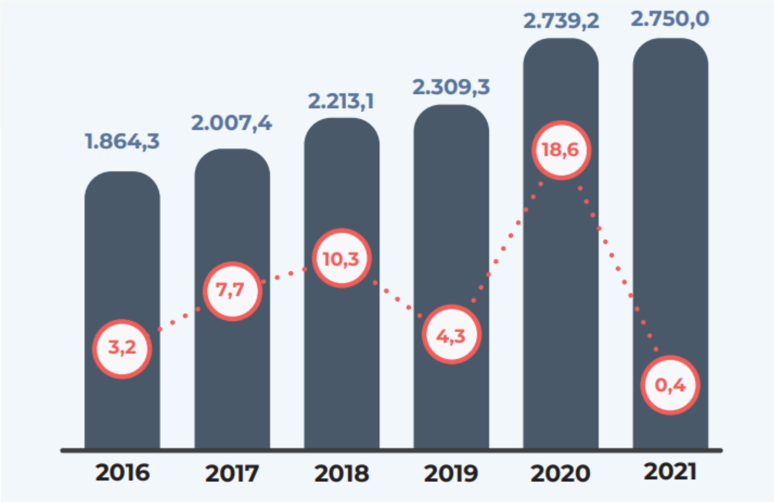



Ministry of Finance Source

In the field of industry, the expansion of tax incentives for PPh 21, PPh 22 import, VAT, DTP import duties, and KUR stimulus, support for the business world is given in the form of financing to support national economic recovery programs including for micro-usaka. In addition to fiscal stimulus, the government also issued policies related to the transfer to the region (TKD) in order to counter COVID-19. This policy includes adjustment of allocation of regional transfers and village funds ( TKDD ); recofusing TKDD to be used for handling covid-19; relaxation of TKDD distribution; and recofusing apbd spending to focus on handling covid-19. The budget is Rp 17.17 trillion. The discussion of the State Budget 2021 during the COVID-19 pandemic became extraordinary considering the submissions and discussions were carried out amid the high uncertainty caused by the COVID-19 pandemic. As a countercyclical instrument, the state budget becomes one of the main that has a very broad dimension of impact both in continuing the handling in the health sector, protecting vulnerable people, and in supporting the national economic recovery process in 2021. Therefore, the State Budget 2021 will continue its expansive and consolidative countercyclical policy by paying attention to flexibility in responding to economic conditions and encouraging prudent and sustainable fiscal management. National development priorities in 2021 focus not only on health, but also on education, information and communication technology, food security, social protection, infrastructure and tourism (Muhyiddin & Nugroho, 2021).




2016 – 2021 state revenue (trillion rupiah)
**Source :** Ministry of Finance




2016 – 2021 state spending (trillion rupiah)
**Source :** Ministry of Finance

## Monetary Policy

Speaking of monetary, bank indonesia (BI) is certainly a plot. The government through BI continues to issue various monetary moves in response to the economic downturn caused by COVID-19. Let's say, the decline in the bi benchmark interest rate (7-day reverse repo rate, BI7DRR) that has entered the episode to many, to remain at 4.5% today. When BI lowers its benchmark interest rate, it is expected that commercial banks and people's credit banks (BPR) will also lower lending rates. Lower lending rates are expected to encourage an increase in the business sector due to lower corporate capital costs (cheaper credit). This policy will usually be supported by LPS (Deposit Insurance Agency) by lowering the guarantee rate so as to make monetary policy more effective. Why doesn't BI print money in times of crisis? Keep in mind that BI is obliged to maintain the mechanism of distribution of kartal money (paper and metal). Based on Law No. 7 of 2011 on Currency, BI will certainly not arbitrarily print money. The amount of money should be adjusted to the needs of the community taking into account economic growth and inflation. Printing large amounts of money without proper calculation, especially in the midst of economic downturn will be dangerous in the future. What about monetary stability? BI is mandated by law for this matter, a difficult job in a condition of high uncertainty. Plus the rupiah is classified as a weak currency (soft currency), which is very easy to tossed in value. In general, BI seems to continue to maintain rupiah exchange rate stability, which analysts often call market intervention.  It is in this situation that BI intervention is necessary, to stabilize the rupiah again, so as not to weaken. How do you do that? Increase the amount of US$, maintain the availability of liquidity, so that US $ returns a lot in the market. The latest data from BI's press release dated May 6, 2020, it is said that BI has been injecting large amounts of liquidity in the banking industry since the beginning of 2020. If totaled, until the beginning of May, the amount has been in the range of Rp 503.8 trillion.  This policy (technically, QE-Quantitative Easing) is done in several ways. BI purchases Government Securities (SBN, including government bonds and state sharia securities) in the secondary market. Bi also provides liquidity in the banking market through term-repurchase agreements, foreign exchange swaps, and lowering mandatory reserve requirement (GWM) so that the current liquidity condition of the banking industry is arguably sufficient. This policy seems to be effective because it is supported by state fiscal stimulus (incentives from the tax side), social assistance to increase household consumption, and relaxation of microprudential rules from the OJK, which facilitates banking financing to MSMEs and businesses in order to recover the economy. The economic recovery is still full of uncertainty. Monetary studies show a lot of work has been done by the government. The unclear direction of the wind makes us need to be vigilant, which obviously COVID-19 has changed the architecture of the world economy, ranging from business models to the implementation of financial technology. From the monetary side, it is believed that the monetary authority will continue to implement monetary easing to boost growth. In addition, low inflation supports the government to formulate a more effective QE policy. Furthermore, the central bank's benchmark interest rate cut room (BI7DRR) seems to be still open, although this may not be the right time at the moment. Indonesia's economy still faces tough tests for years to come. The banking market does need to get special attention because it concerns the lives of many people, which in technical language is called potentially carrying systemic impacts. On the other hand, authorities in the financial sector must continue to work on various ways of creating stability. Lastly, hopefully all these efforts can bring the economy to a new balance condition that is more equitable, equitable, and prosperous.

## Conclusion

Currently Indonesia is at a less conducive crossroads. On the one hand, state revenues are vulnerable to being below target, but on the other hand the possibility of swell of state spending is also considerable. Basically, every policy made by the government in times of crisis will consider several strategic objectives, namely reducing the negative impact of the crisis on low-income and vulnerable people, better health management and seeking to restore development to its original path. Through the State Budget 2021 strives to be able to push the national economy able to get out of the abyss of recession. Through various spending allocations, it is expected to support economic growth targets while better handling health and reduce the impact of declining business performance due to the prolonged pandemic. This is because government consumption through spending can be a strong leverage, especially when private and household consumption is declining. Therefore, cooperation in fiscal policy and monetary policy is necessary in order for the boost to national economic recovery to run optimally. Not only being the main instrument for national economic recovery, the 2021 State Budget can also be a momentum transition to adaptation of new habits gradually to solve problems in the health, economic, social sectors facing Indonesia. In addition, the 2021 State Budget could also be a momentum for the government to carry out structural reforms in order to reorganize the allocation of national economic resources to be more efficient and effective for the coming years.

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