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IMPACT OF ECONOMIC IN INDONESIA FROM COVID-19

GARRY ALFONSIUS

Bachelor of Science in Business Administration

at Universal Institute of Professional Management

UIPM Singapore

1. ABSTRACT

During coronavirus in Indonesia many people lost the job. People used to work well but today they have to contend with the current situation. Indonesia is one of the countries affected by the corona virus with a population of no. 4 in the world with a population of 270 million people this makes it very vulnerable to the spread of this virus corona, data published in March 2020 announced there were 2 positive patients affected by the corona virus, 2 months later there was an increase of thousands of percent of people infected with this virus, causing panic and fear throughout the community and bring tremendous impact from starting panic buying people buy staples in large quantities so that goods become scarce resulting in uncontrolled prices, hoarding and smuggling of personal protective equipment such as masks and personal protective clothing which makes the situation of the community increasingly haunted Fright. The Government of Indonesia has allocated a budget of Rp. 405.1 Trillion to tackle the spread of this epidemic and the impacts arising from this virus, such as decreased public purchasing power, unemployment due to massive layoffs and the sharp rise in poverty rates caused by this virus.

Keywords: Economy Indonesia, Government Support, Responding the Problem from Government

2. INTRODUCTION

The whole world is currently being shaken by COVID-19. Not only health problems, but all areas of human life have experienced impacts that could cause a global recession, including the economy. Some facts show that the engine of world economic growth, such as China, the United States, and Europe is greatly affected. In the 1st quarter it is estimated that the contraction will reach -9 percent in China's GDP growth in 2020 and in the 2nd quarter there will be a -6 percent decline in US GDP growth in 2020; and in the fourth quarter would be far worse than the -2.2 percent growth recorded in 2008 (Bloomberg, 2020; Goldman Sachs, 2020). The Indonesian government moved quickly to adopt a policy after the World Health Organization (WHO) announced that the 2019 Coronavirus Disease Outbreak (COVID-19) had become a pandemic. This outbreak has occurred in a wide geographical or spread globally. The number of cases worldwide reaches 120,000 and deaths have exceeded 4,300. The condition is urging governments all over the world to step up efforts to limit. The impact of COVID-19 on the economic sector is certainly inevitable. World economic growth is projected to contract deeper and so will the Indonesian economy. To that end, the government is concerned with issues that require special policies by issuing a second economic stimulus to deal with the effects of the Coronavirus (Hartarto, 2020). The role of the government in managing public finances is very important in paying attention to the social welfare of people affected by COVID-19, poverty is still felt by the people and even raises new poverty due to termination of employment, misuse of the budget on direct cash assistance and distribution that is not on target, to economic growth low budget, and anticipate budget deviations. This article aims to describe the sustainability of public finance by the government in preventing and managing the spread of COVID-19 in Indonesia.

3. METHOD

A. Economy Indonesia

Indonesia’s economy was doing reasonably well before the pandemic, steadily expanding by around five per cent a year for some time and with good prospects to continue doing so. But it’s reliance on foreign capital inflows has long been a weak point. Indonesia was one of the worst affected by the mass exodus of foreign capital from emerging markets as Covid-19 became a global pandemic in March of this year more than US$10 billion was withdrawn from Indonesian capital markets and the rupiah plunged at one point by almost 20 per cent. Markets stabilized in May, particularly as the US Federal Reserve rolled out massive emergency liquidity measures. Nonetheless, the threat of renewed capital outflows lingers, playing on fears nested in memories of the *Crisis Monetary* of the late 1990s.

Indonesia’s hard currency reserves are its first line of defense these may not be as substantial as those of some other emerging economies. But at US$131 billion, they are still ample enough for most purposes. Bank Indonesia would also still have enough left over to finance the entire current account deficit for the year, even if this rose to be twice as large as last year’s deficit.

Indonesia’s stockpile of around US$400 billion in gross overseas debt is a point of vulnerability. But the banking system is largely domestically funded, while almost half of all external debts is owed by the government, which remains in a strong overall debt position. Total government debt was only 30 per cent of GDP in 2019, one of the lowest ratios in Asia. Another sizeable portion of overseas debt is owed by state- owned firms, many of which are now under considerable financial stress. Some of this will need to be restructured.

Non-resident investors hold around US$300 billion in Indonesian financial securities. Theoretically, this provides plenty of raw material for significant capital outflows. However, Indonesia has now seen itself through many episodes of capital flow reversals – in 2008, 2013, and 2018. Indonesian policymakers have worked out what to do, and did it over recent months. In response to outflows in rupiah denominated government bonds, Bank Indonesia allowed the rupiah to fall by 15 – 20 per cent and bond yields to rise around 100 basis points. Foreigners who exited after the commencement of the sell-off lost out, while those who retained their holdings were given an incentive to stay as the currency and bond prices stabilized.

Therefore, is maintaining confidence in the underlying good health of the Indonesian economy and the credibility of policymaker’s ability to do what is needed to keep it that way. In the current crisis, that means containing the virus itself, keeping the economy and society afloat through the pandemic, and providing enough stimulus to get the economy moving again out the other end. While markets can be irrational, the best way to reduce the external risks is for the authorities to manage the domestic economic situation as effectively as possible.

B. Government Support

1. Stimulus Key in Indonesia Post Covid-19 Economic Recovery

To help the country recover from the pandemic caused economic downturn, the Indonesian government through Government Regulation No. 23/2020 on the national economic recovery program has allocated Rp 318 trillion (USD 21.28 billion) as economic stimulus packages. Almost half of the stimulus (Rp 152 trillion) will go to state owned enterprises (SOEs), with Pertamina (state oil and gas company) together with PLN (state power utility) will get 65% of the money. The government will also provide tax incentives for businesses (Rp 63 trillion), fund placements for local banks (Rp 35 trillion), subsidies for biodiesel (Rp 2,78 trillion), a stimulus for the tourism industry (Rp 25 trillion), and loan interest subsidies for MSMEs (Rp 34.15 trillion).

Skeptics might say that low carbon development is too expensive to be pursued at this challenging time. This view was largely true in the case of the 2008/2009 economic crisis. But with the plummeting costs of clean technologies such as solar PV, wind turbines, electric vehicles (EV), and batteries in recent years, the shift from a carbon-intensive economy to a low carbon economy will be within our reach. Contrary to conventional wisdom, the low carbon development can actually bring higher economic growth than the high carbon one as revealed by Bappenas in 2019. In addition, more international financial institutions shy away from fossil fuel projects such as coal projects as they see the risk of these projects becoming stranded assets in the not too distant future. The government, therefore, should at least listen to those financial experts and make sure that the public funds allocated to PLN and other businesses will be invested in “the future” and “the past”.

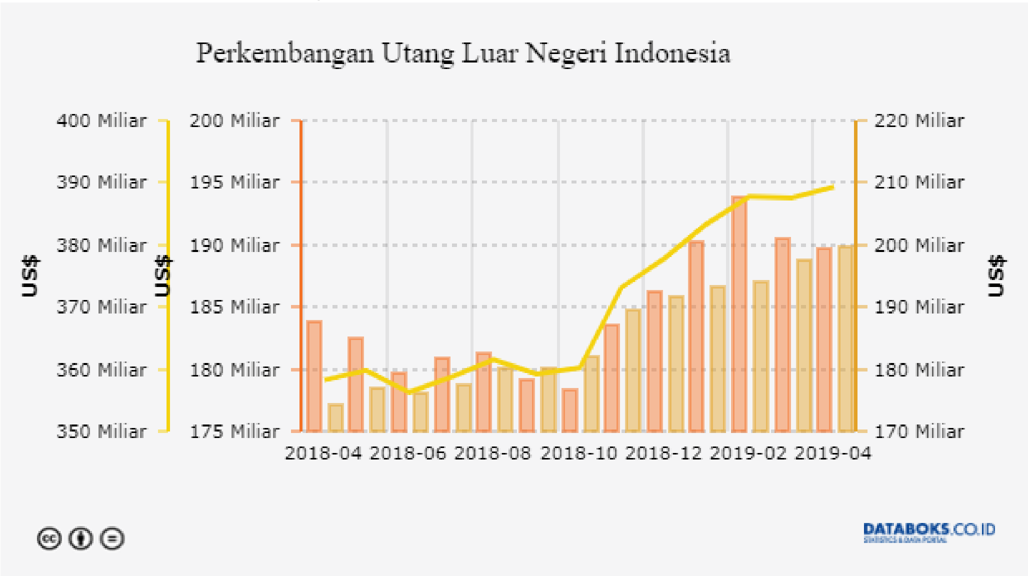
2. Government Assistance from Australia

Although there is a clear economic case for temporary central bank financing, market perceptions, even when misguided, can still trigger renewed capital flight. In such an unprecedented and uncertain global situation as Covid – 19, there are many possible scenarios for renewed market turmoil and a return to rampant capital outflows from emerging markets. Outside support could therefore be very useful in helping Indonesia get through the economic pandemic. Multilateral sources of support are either limited or face deep political constraints. Instead, Indonesia could turn to some of its key bilateral partners, such as Australia for additional assistance. At little cost to the Australian budget, well-structured Australian support could make a material contribution to Indonesia’s economic recovery. At Indonesia’s request, Australia could put in place a US$ 10 billion (roughly A$15 billion) standby loan arrangement that would be readily available if Indonesia were unable to raise enough from the market to finance its budget deficit. Existing Australian legislation would require this to involve an international financial institution such as the World Bank or ADB. This should not be too difficult to arrange, since both multilateral development banks are already providing Covid – 19 financing assistance to Indonesia. Australia has participated in similar standby loan facilities for Indonesia in the past – in 2009 during the global financial crisis, and again in response to the 2013 ‘taper tantrum’. On both occasions, Australia committed about A$1 billion as part of an approximate US$5 billion multilateral facility led by the World Bank. These loans were seen as helping boost market confidence in providing financing to Indonesia, which in turn meant that the Australian funds were never actually drawn upon. The key difference today is that a far larger sum is needed. But this can be facilitated by anchoring the loan terms to Indonesia’s normal sovereign borrowing costs, instead of the approach of past arrangements where the loan terms were effectively on a semi-concessional basis and therefore carried a greater budgetary cost.

C. Responding the Problem from Government

As a result of the global crisis from the period 2006-2019 economic growth was constant at 5.1% due to the slowdown in the world economy which resulted in decreased demand for export commodities, of course this will affect the government's current account in generating foreign exchange and taxes. Indonesia's economic growth is supported by high consumption and partly by the tourism business which is the backbone of the national economy and currently the national economy is ravaged by this corona virus, the production sector cannot run due to lower demand and does not rule out the possibility in the next 3 months if this problem this will not result in many production sectors that will close their businesses, the tourism sector is devastated by this plague the number of tourists dropped dramatically which resulted in thousands of hotels laying off their employees because they did not bother paying their operational costs. This will certainly be correlated with the rise in poverty and poverty that will occur so that in the long run it will spur economic recession which is very frightening. The size of the stake than the pole is our budget structure where income is smaller than the budget so that the shortfall is covered by both domestic and foreign debt. The increase in the budget deficit will correlate to the increase in debt both domestic and foreign debt which during 2016- 2019 experienced a progressive increase. So that the widening budget deficit must be watched out by the government with the current situation, lest Indonesia become a default country because if this happens international confidence will disappear and international trade is disrupted, namely export-import if this happens will result in a weak foreign exchange reserves of the country where the theory of a healthy country must have foreign exchange reserves to finance 6 months of imports. Proposing a change in the budget deficit to 5% must inevitably be done even bitterly by closing the budget by 5% because if this is not done it will cause more serious things namely the absence of development which will ultimately make our economic growth worse.

Indonesian Debt Development



Source: www.galamedianews.com

On March 16th, 2020, the Ministry of Administrative and Bureaucratic Reform announced new regulations for controlling the spread of COVID-19 in the community. These regulations explained about the instructions to stay-at-home or work–from home during the COVID-19 outbreak (Ministry of Administrative and Bureaucratic Reform, 2020). All employees were encouraged to work from home unless they had to be in public areas for reasonable excuses. Among 273 million of Indonesians instructed to stay-at-home, a major impact may strike the Indonesian economy beyond the spread of the COVID-19 itself (World Population Review, 2020). Therefore, addressing the economic impact of COVID-19 could be done through stay-at-home practice. In addition to this, incentives and rewards shall be prepared to protect economic activity (Fenichel, 2013). Lately, Indonesian Government also provided social security program for those affected by COVID-19. The Government released Family Hope Program (Rp. 37.4 trillion), Social Assistance for Staple Food (Rp. 2.2 trillion), Village Fund (Rp. 21 trillion), Cash Labor-Intensive Program (Rp. 16.9 trillion), and Pre-Employment Card Program (Rp. 360 billion). These programs were expected to assist the community to manage the economic impact due to COVID-19 (Secretariat of the Republic of Indonesia, 2020).

Responding to this problem the government made policies by setting strategies and policies in dealing with this virus corona in order to minimize the impact of this virus both for health and socio-economic impacts due to this outbreak which include:

1. Encourage people to implement social distancing.
2. Form a task force to accelerate the corona virus.
3. Building a hospital specifically for corona virus patients.
4. Establishing large-scale social restrictions in certain cities.
5. Provide energy incentives in the form of free electricity for 3 months for 450 VA and 50% discount for 900 VA.
6. Providing social safety nets in the form of a package of people's basic needs for 6 months.
7. Providing incentives for people affected by layoffs by issuing a Pre-Employment Card.
8. The incentive of relaxation of installment payments for victims affected by the corona virus.

Indonesia is expected to become a developed country in 2030 because it has a comparative advantage, namely demographic bonus where the productive age in 2030 reaches its peak even in 2019, America has established Indonesia as a developed country by setting high taxes on Indonesia's export commodities. Currently the corona virus storm is here to give up the foundation of the Indonesian economy, humanitarian disasters that come have a great impact on the national economy, the stock market and the money market is plummeted, weakening economic growth, depressed macroeconomic and microeconomic make the economic situation of Indonesia even worse. Poverty and a very large social problem this will certainly be a problem for the government both in the short term, the long-term impact of poverty will have an impact on health, low education will certainly give birth to low quality resources so this layoff problem must be watched out by the government by providing solutions real so that people have income to fulfill their lives which includes:

1. The government as much as possible to minimize layoffs by providing incentives to companies not to lay off jobs such as tax relief, and provide import duty relief for production raw materials from overseas is expected to run production process activities.
2. The government provides social security for employees affected by layoffs so that with social security they still have income to meet their daily needs. In social security it is better in the form of money not in the form of training because with money they will have the purchasing power to drive consumption.
3. Providing energy subsidies / incentives for the poor which includes water, fuel, electricity and gas, it is hoped that these energy incentives can ease the cost of living.
4. The government buys agricultural products which have been sluggish in the international market such as rubber, cocoa, palm oil in the hope that the absorption of agricultural commodities from the community has the purchasing power that will create demand so that supply is created and will encourage the rotation of M1, M2 and M3.

4. CONCLUSION

Economic growth of our economy which is supported by public consumption, the decline in purchasing power will result in a decline in the production market and a decline in the offering of a decline in the offer will result in losses for companies and ultimately taxation received by the government will decrease, so that the budget deficit will widen in the future 5% of GDP. The budget deficit which is expected to widen at 5% certainly in the long run will provide tremendous fiscal pressure but in no other way than to enlarge the budget deficit range so that development continues to run, in the short term the government must focus on the microeconomics to move the real sector if this will lead to a positive correlation with the wheels of the national economy. Declining per capita income of the community which will have an impact on socioeconomic problems such as poverty and poverty in Indonesia must be watched out because it will become a snowball if late tackling it will become an economic recession that will bring our economic downturn in the long run, through economic incentive purchases for entrepreneurs and the community, relaxation of the payment of banking credit absolutely must be done so that the business world can resume and public purchasing power rises with rising purchasing power will create demand and demand in consumption, production and distribution. So, I hope Indonesian people can help each other to make the economic good again and I hope Indonesian people can fight Covid-19. Because this pandemic makes the economic of Indonesia go down so I hope the economic of Indonesia can be revive again and good as always.

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