

# Reviewing the Impact of Covid-19 Pandemic on the Current Indonesian Economy

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## ABSTRACT

Covid-19 has been endemic since the end of 2019 in Wuhan, China and spread to become a global pandemic throughout 2020. The development of the Covid-19 pandemic has become a new threat, not only for physical health, but also for the mental health of the world community. In Indonesia, the Covid-19 pandemic began to endemic since early March 2020 in Jakarta and began to plague nationally in the next period of time. This has an impact on the essential sectors of society other than health, such as education, social, including the economy. This resulted in national economic turmoil due to restrictions on economic activity. As a result, many people have lost their jobs and see a rise in poverty, not only in Indonesia, but also globally. Covid-19 contributed to Indonesia's economic growth in 2020 which reached minus 2.1 percent. In addition, the pandemic has also forced the government to rearrange the budget of ministries and agencies to focus on activities to deal with the pandemic. In addition, the government has also implemented a number of policies to deal with the pandemic, such as Large-Scale Social Restrictions, Enforcement of Restrictions on Community Activities, and the implementation of a new normal lifestyle. The government has pursued a number of policies and budgeted large costs for handling the Covid-19 pandemic in Indonesia. Therefore, there is a need for a review in this regard.

**Keywords:** Impact, Covid-19 pandemic, Indonesian economy

## 1. INTRODUCTION

The Covid-19 pandemic since December 2019 has spread throughout the world until 2021. The presence of the virus increases the risk to people's physical and mental health and impacts the daily social life of the psychosocial world. A number of health studies of people infected with the Covid-19 virus show a number of symptoms, including: fever (83-98 percent), cough (59-82 percent), difficulty breathing (19-55 percent), and muscle aches (11-44 percent).

As of June 10, 2020, Covid-19 has plagued 199 countries and infected 7.4 million people, with around 420,000 people dying. Based on data released by Worldometer on April 22, 2021, the daily positive cases of Covid-19 reached 892,000 people, with a cumulative case of around 145 million people worldwide, with 3 million of them dying (Figure 1).

This pandemic is a health and economic challenge for all countries in the world. The slowdown and restriction of economic activity resulted in many people being unemployed. This has a direct impact on increasing the

global poverty rate. In addition, the COVID-19 pandemic has had a very bad impact on developing countries because the state budget is more limited, especially in providing social assistance and reducing the community's economic crisis, especially in the poor and vulnerable to the poor.

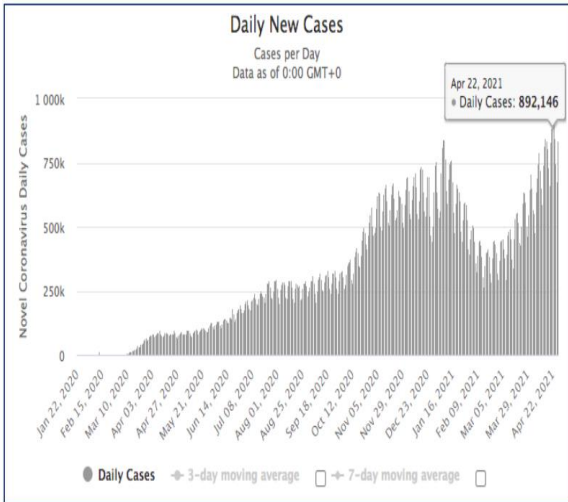


Figure 1. World Daily New Cases of Covid-19[1].

In Figure 2, we can see an increase in Covid-19 cases in Indonesia. This is due to the discrepancy between the policies of the Government of Indonesia, at the national and regional levels. A significant increase in Covid-19 cases in Indonesia occurred in mid-May 2020 after the Eid holiday, from 300 cases to 600 cases. The increase in cases also occurred in mid-June 2020 with the number breaking through 1000 cases per day. This was due to the holiday that occurred close together and the government still allowed going home (mudik) at that time.

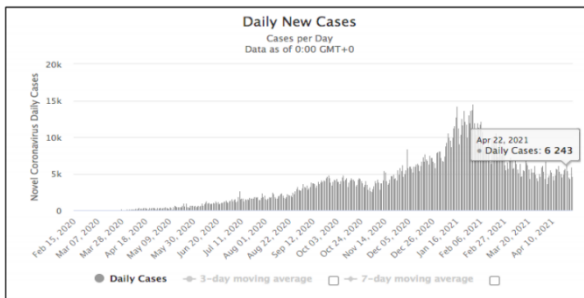


Figure 2. Indonesia Daily New Cases of Covid-19[1].

In figure 2, we can also see an increase in daily cases between June 2020 and early February 2021. Similar to the cause of the increase in cases in 2020, the increase in the daily number of Covid-19 cases in Indonesia during this period was due to several things, such as the Eid homecoming, the easing of social restrictions, large-scale, unsettled new normal implementation, to simultaneous regional head elections in December 2020. This has resulted in an increase in daily cases of Covid-19 in Indonesia to reach 14,000 cases by the end of January 2021.

1.1 The Impact of Covid-119 Pandemic on the Current Indonesia Economy

Economically, the Covid-19 pandemic resulted in the worst recession in 50 years. According to the International Monetary Funds (IMF) in The World

Economic Outlook 2021, the world economy in 2020 will grow by minus 3.5 percent. This figure is more severe than the 2009 global financial crisis and the 1998 Asian monetary crisis. Therefore, it is not surprising that all countries are doing all they can to minimize the bad impact of the pandemic, including the Indonesian government.

The effort made by the Government of Indonesia is to form a Komite Penanganan Covid-19 dan Pemulihan Ekonomi Nasional/Committee for Handling Covid-19 and National Economic Recovery (KPC-PEN) on April 22, 2021. However, Indonesia's economic performance in 2020 also experienced a severe slowdown, at -2.1 percent cumulatively, surpassed the 1998 crisis which reached -13.3 percent.

The economic impact caused by the Covid-19 pandemic must be viewed as a serious threat by the Government of Indonesia. Although it did not have a negative impact on the 1998 Asian Monetary Crisis, the negative economic impact caused by the pandemic could result in a decline in Indonesia's position as a middle-income country that it has had since 2019. This economic impact may also affect the Government of Indonesia's plans as set out in 2045 Indonesia Vision.

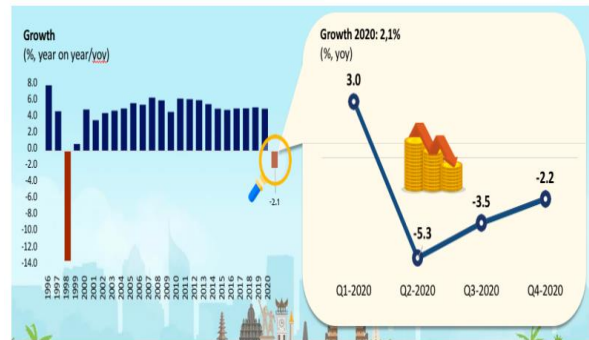


Figure 3. Indonesia Economic Growth [1].

However, the Indonesian economy began to show improvement in the second and third quarters. As could see in Figure 3, in the four quarters of 2020, the Indonesian economy increased from -5.3 percent, to -3.5 percent,

-2.2 percent at the end of 2020, and was followed by a smaller economic contraction in the following period. The Indonesian government can do more in 2021 to meet its 5.0 percent economic growth target by year-end

The Covid-19 pandemic has also affected government finances. The Indonesian government has reallocated the overall budget. In June 2020, the government expects the budget of ministries and state agencies to be around Rp. 695.2 trillion to deal with the pandemic. Based on an audit by the Supreme Audit Agency of the Republic of Indonesia, the government has budgeted Rp 1.035 trillion for the handling of Covid-19 in 2020, with details of Rp 938.42 trillion originating from the national budget, Rp 86.36 trillion from the regional budget, and the monetary sector amounting to Rp. 6.5 trillion. Government debt also increased rapidly by three times or around 180.4 percent. As is known, Indonesia's debt financing

throughout 2020 reached Rp 1,226.8 trillion. This figure grew significantly compared to 2019 which reached Rp 437.5 trillion. In fact, the increase in the government's annual debt jumped from the 2020 state budget target of Rp 351.9 trillion. The pandemic has also forced the government to revise the targets of the 2020-2024 National Medium-Term Development Plan and the 2020 Government Work Plan be postponed in 2021 and beyond.

The impact of the pandemic on the government also affected the 2020 budget, which reached IDR 1,226.8 trillion. This is due to the policy of community activities, including economic activities. Since 2020, the government has implemented the Large-Scale Social Restriction (PSBB) policy, a new normal way of life, and the Policy for the Enforcement of Community Activity Restrictions (PPKM) as the successor to the PSBB policy. Economic activity began to increase in February 2021 in line with the national vaccination program, which is expected to experience national development as stipulated in the Government Work Plan (RKP) 2021.

Apart from the decline in economic activity, the decline in state revenues was due to the tax relaxation policy taken by the government. Since 2020, the government has implemented a tax incentive policy on a number of certain industrial products to maintain people's purchasing power in the midst of the pandemic. The consequence of implementing this policy is a decrease in state revenue through taxes by 6.3 percent of GDP. Another financial challenge faced lies in the swelling of the state budget financing to more than IDR 1,000 trillion<sup>1</sup>, where the debt stock is estimated to be close to 40 percent of 2020 GDP. The increase is also expected to be paid for through the issuance of debt securities. Therefore, the government and Bank Indonesia have explored cooperation in implementing a new burden-sharing<sup>2</sup> scheme in reducing the fiscal burden in the future.

In the context of national development, the government has budgeted Rp 567.9 trillion to finance 12 national projects grouped into 7 national priority<sup>3</sup> programs. Funding for the project also comes from the 2021 state budget of Rp 113.9 trillion. Table 1 above is a list of development projects prioritized by the government, including improving the quality and competitiveness of human resources which reached Rp 257.32 trillion. In addition, the infrastructure sector is also still the main focus of the government by becoming the second priority program that consumes a budget of Rp. 117.71 trillion.

**Table 1.** Allocation of Major Projects RKP 2021 by Natial Priority [1].

No.	National Priority	Rp Bilion
1	Strengthening Economic Resilience for Quality and Equity Growth	73.087,7*)
2	Developing Areas to Reduce Inequality and Ensure Equity	72.138,2*)
3	Increasing Quality and Competitive Human Resources	257.316,8*)
4	Mental Revolution and Cultural Development	4.797,6*)
5	Strengthening Infrastructure to Support Economic Development and Basic Services	118.712,4*)
6	Building the Environment, Enhancing Disaster Resilience, and Climate Change	10.468,2*)
7	Strengthening Polhukhankam Stability and Transforming Public Services	31.329,8*)
Total Amount		567.850,8*)

**2. CONCLUSIONS**

The corona virus pandemic that has occurred since March 2020 in Indonesia has had many impacts on people's lives, ranging from health, psychological conditions, to the economy, where the pandemic eroded national economic growth by -2.07 percent that year.

The Indonesian government has implemented a number of policies aimed at reducing the spread of the pandemic, starting from establishing KPCPEN, implementing PSBB and PPKM, enforcing tax relaxation, and so on.

Despite experiencing an economic slowdown and increasing debt, the Government of Indonesia remains committed to alleviating national development projects, especially in the competition sector and improving the quality of human resources and infrastructure to spur the ease of economic activity, so that it is hoped that the national economy can improve in line with the control of Covid-19 cases in Indonesia.

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