

## THE COVID-2019's IMPACT ON INDONESIA ECONOMIC GROWTH 2020 AND THE SOLUTION

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### Abstract

*Recently, covid-19 pandemic impacts on the economic recession of several countries. This is due to the economic growth has been into minus in first and second quarter of 2020. If in the third quarter of 2020, economic growth falls into negative, then several countries such as Singapore, South Korea, German, Japan, France, Hong Kong, US and Indonesia will have economic recession. Meanwhile, Central Statistic Body (BPS) notes that during third quarter, Indonesia economic growth in the third quarter of 2020 has declined into negative (-5,32%). Previously in first quarter 2020, the malaise of economic growth reveals since Indonesia economic growth has got 2,97%. This paper aims to examine the impact of covid-19 pandemic on economy and its solution. One of the solution is by accelerating government spending or add the allocated of social welfare budget or cash transfer (Bantuan Langsung Tunai/BLT). House of Representative (DPR) with their role has to push the government to make the policy for national economic recovery.*

### Introduction

Currently, Covid-19 pandemic leads to economic uncertainty and economic recession. Such countries, United States, Japan, Singapore, Hong Kong, Europe Union and South Korea have got negative economic growth in first and second quarter of 2020. Hence, the economic malaise will impact on the performance of Indonesia economic growth in 2020.

Covid-19 pandemic provides a domino effect from health to social and economic problems, especially business actors. Central Statistic Body has noted that economic

growth rate in the first quarter (January-March) 2020 grew only 2.97%. This number reduced from 4.97% in the fourth quarter of 2019. Moreover, this growth is far below the achievement of the first quarter of 2019 which is 5.07%. While in the second quarter of 2020, Indonesia's economic growth rate has been a minus 5.32%. This number is contrariwise proportional to the second quarter of 2019 at 5.05% (cnnindonesia.com, August 5, 2020)

Based on GDP at the current prices (Gross Domestic Product), Indonesian economy in the second quarter of 2020 got IDR



3,687.7 trillion. However, based on the constant prices with the base year 2010, it was Rp. 2,589.6 trillion. Furthermore, compared to the basis of constant prices or yoy (year on year), economic growth in the second quarter of 2020 has contracted into -5.32%. Additionally, as it is compared to the first quarter of 2020, the contraction is -4,19%. While its cumulative on the first semester of 2019, economic growth contracted into -1,26%, in yoy the contraction of Indonesia economic growth in the second quarter was relatively bottomless. Based on these data, Indonesia's economic growth has experienced into negative growth during the second quarter of 2020. This paper aims to examine the impact of Covid-19 on economic growth and its solutions.

### **The Realization of the National Economic Recovery Program Budget**

The government has budgeted a total cost for handling Covid-19 and National Economic Recovery (PEN) of Rp.695.20 trillion which is allocated for six sectors. Total realization for the first week of August was IDR151.25 trillion or 21.8% from the ceiling of the National Economic Recovery program (Ministry of Finance.go.id, 10 August 2020).

The government has conducted several step to minimize the impact of Covid-19 pandemic on the three sectors (health, socio-economy, and the business). For example, in the health sector, the government has provided equipment to support medical personnel, building

emergency hospitals to seeking referral hospitals for Covid-19 patients. Based on data from the Coordinating Ministry for Economy, the realization of the PEN program for the health sector has been merely around IDR 6.3 trillion from IDR 87.55 trillion of the ceiling. This is for national and regional health incentives of IDR 1.7 trillion, compensation for health worker deaths IDR 12.9 trillion, distribution of the Covid-19 task force IDR 3.2 trillion and incentives for health import duties of IDR 1.4 trillion (national.kontan.co.id, 5 August 2020).

Furthermore, the government has also provided a social safety for social and economic activities for people whose income has been affected by the pandemic. The goal is to maintain the people's ability to spend the money during a pandemic. The realization for social protection has been Rp. 85.3 trillion from the ceiling of Rp. 203.91 trillion. Meanwhile, the realized budget for the Family Hope Program (PKH) is IDR 26.6 trillion, IDR 8.3 trillion for cash transfer program (BLT) for village funds, IDR 25.5 trillion for staple food cards, IDR 2.4 trillion for pre-employment program, IDR 2.9 trillion for Jabodetabek staple food assistance, IDR 16.5 trillion for non-Jabodetabek cash assistance and IDR 3.1 trillion for electricity discount (national.kontan.co.id, 5 August 2020).

The government continues to carry out various recovery programs to make the business world survive. The government also organizes a support for the business world by conducting a coordination

with BI, OJK and some national banks to maintain the business sector, business sector and the real sector can survive although they do not carry out economic activities. Furthermore, the realization at ministries / agencies for crowdsourcing was Rp. 7.4 trillion, and regional incentive funds (DID) for economic recovery of Rp 13.4 billion. Then the realization of the PEN program for MSMEs was Rp.30.21 trillion from a ceiling of Rp.123.4 trillion, the realization for business incentives was Rp.16.2 trillion from a ceiling of Rp.120.61 trillion, while there has not been a realization for corporate financing which have a ceiling of Rp.53.57 trillion (national.kontan.co.id, 5 August 2020).

This program therefore aims to protect, maintain and improve the economic capacity of business actors in carrying out their businesses activity during the Covid-19 pandemic. Meanwhile, the PEN program is for UMKM which aims to maintain and improve their existent for Indonesian economy. In this case, the source of PEN funding comes from state budget, placement of funds, guarantees, state capital participation and government investment.

### **Solution: Accelerating the Realization of Government Expenditure**

Economic growth of the second quarter of 2020 has experienced a very sharp decline. Hence, it is dreaded that there will be a decline of economic growth in the third quarter of 2020. Therefore, the solution is to increase the consumption of central and local government expenditures when public consumption cannot be expected to support economic growth during a pandemic. Hence, it is

necessary. to conduct spending the budget extremely for government expenditure, which is in fact also dropped significantly by -6.9% (Republika, 6 August 2020).

Although Indonesia's economic growth has contracted in second quarter of 2020, this does not mean that Indonesia has entered into a recession. Recession occurs once economic growth is negative for two quarters in a row. Furthermore, the Research Director of the Center of Reform on Economics (CORE) estimates that Indonesia's economy has the potential to grow negatively by 3-4% in the third quarter of 2020 (money.kompas.com, August 5, 2020). This period was about the government carried out large-scale social restrictions (PSBB) to reduce the spread of Covid-19, which have an impact on Indonesia's economic growth in the second quarter of 2020 (warta Ekonomi.co.id, 5 August 2020).

The decline of economic growth in second quarter of 2020 has been extremely deep due to a slowdown in public expenditure and investment, including domestic and foreign trade activities. A number of figures from economists to former finance ministers gave arguments about potential solutions taken by policy makers to "save" the country's economy. These opinions stated that government expenditure can support economic growth, but it has not been effective in the second quarter of this year. At the end, household consumption remains the key from the demand side, then investment (Ekonomi.bisnis.com, August 5, 2020).

## **Prospective of Economic Growth in the third semester of 2020**

Although the looming recession reveals large, the prospective to improve Indonesia's economy remains. The economy development in the third quarter of 2020 has prospective to grow quarterly. It is due to the deepest impact of the Covid-19 pandemic which is occurred in May and June of 2020. However, economic growth in third quarter of 2020 has the Prospective to increase by 4%, if government expenditure is effective. Similarly, Senior Economic Researcher at the Institute for Strategic Studies, Eric Alexander Sugandi explained that there are still opportunities for the economy to grow, if the realization of the National Economic Recovery Program (PEN) is effective.

Furthermore, household spending remains the key from the demand side, and then investment. Government spending can support it to growth, both directly and via a multiplier result via household consumption and investment. In addition, a better economic growth in third semester of 2020, in terms of exports is predicted to improve, in line with the opening of the economic doors of Indonesia's strategic trading partners (Bisnis Indonesia, 5 August 2020).

The government has carried out various policies dealing with Covid-19 in the economic sector, such as tax and capital stimulus, credit restructuring, even discounts and exemption from household electricity costs. However, these programs have not been right on target and ineffective. This

is due to a lack of socialization. Hence, few people can take the benefit from this program. For example, the government has provided tax incentives for the business world. Furthermore, low budget absorption is also due to not all activities are centralized in the Ministry of Health, but also in the Covid-19 Task Force and another unit. Additionally, the administrative processes and requirements for stimulus at the Ministry of Health and the Covid-19 Task Force have not been synchronized yet.

## **Closing**

The Covid-19 pandemic has caused the economic problems. It can be seen from two different economic points of view which is called demand and supply. At the demand side, the conditions of the Covid-19 pandemic will obviously reduce the consumption sector, travel and transportation activities, and trade. Meanwhile, at the supply side, it is possible that worker / labor productivity will be contracted, decreased investment and funding activities, and disruption of the global value chain.

By aggregating public trade and industry activity with strict health protocols and accelerating the realization of stimulus by the government from the state budget, it is hoped that the economic growth at the third and fourth quarters of 2020 will not be at a negative level. The house of representative (DPR) with their supervisory function has to urge the government to formulate policies that should be directed at efforts to accelerate national



economic recovery. One of them is by accelerating the realization of government spending.

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#### **Info Singkat**

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