Abstract

At the end of the first quarter of 2021, several international finance institutions have revised Indonesia’s economic growth projection. According to those institutions, it estimated that Indonesia’s economy in 2021 will grow only 4.3% yoy. Previously, Indonesia’s economic growth was predicted to grow by 4.8%–5% yoy. The revision to such projection is due to several risk factors and policy responses. This paper analyzes the government response after the revision of Indonesia’s economic growth projection. How the adjustments of fiscal and monetary policies to maintain and take advantage of after vaccination momentum? Safeguarding the recovery shall continue to be encouraged by providing stimuli, such as social community assistance and provide a relaxation incentive for business taxation. MSMEs and corporations are also needed to be given incentives to increase social spending for the community. The House of Representatives (DPR RI) needs to both encourage and supervise the government policies and programs. This is to maintain the economic recovery momentum by increasing the purchasing power and adjusting the mixed policies, while maintaining the vaccination continuity.

Introduction

Minister of Finance Sri Mulyani, in the Spring Meeting with International Monetary Fund and the World Bank Group on April 2021 confirmed that entering the 2nd year of Covid-19 pandemic, it gains the optimistic sense on the domestic economy to run well. This due to the vaccination program that has been running, the support of mixed policies, and global economic prospects that is getting better. However, the optimism on the economy that is getting better with sustainability of economic recovery also depends on the effectiveness of policy responses taken in answering the uncertainty (kemenkeu.go.id, 12 April 2021).

There is still high level of uncertainty in domestic economic conditions and today's world reflected from the Indonesia’s economic growth projection in 2020 and 2021 carried out by international economy institutions. Such uncertainty causes the difference
in effectiveness level assessment of Covid-19 preventive policies and economic policy reflected in different scenarios. This causes the projected figure to be very dynamic and diverse, not convergent to a certain number. However, everything leads to the global economic worsening. The World Bank for example, projected the Indonesia’s economic growth in 2021 of 5.2-5.6%. While the Asian Development projected it by 5.0%, Moody’s Institute’s projection only 4.3% far below the estimate International Monetary Fund whose projection is very optimistic at 8.2% (kemenkeu.go.id, 2021).

The study of International Monetary Fund projected Indonesia’s economic growth in 2021 to drop from 4.8% to 4.3%. The revised on economic growth projection occurred due to several on going factors, such as problems related to supply of vaccinations and the concerns to second and third waves of pandemic Covid-19 that leads to the unpredictable changes. Predictions of the IMF or institutions international always refer to subject to uncertainty (kontan.co.id, 9 April 2021). This paper analyzes the responses and government efforts towards revised of economic growth projection by international institutions, in order to benefit the national economic recovery momentum with refers to global economic conditions.

Responses and Momentum of National Economic Recovery 2021

Facing the uncertainty risk in economic recovery, it needs to be anticipated through policy simulation adjusted to the current economic development. At escaping the crisis, efforts are necessary focused on spending within the health sector, fiscal support on target, accommodating monetary policy, and monitoring the risk to financial sector stability. Adjustments to economic policy need be made in the future to safeguard the momentum with the fiscal and monetary mixed policies within the macro-economic framework.

Indonesia’s economic recovery shall be very related to the positive global economic outlook 2021. This can be used as a momentum to encourage the economy growth 2021 as a condition for complete and sustainable economic recovery in order to be able to encourage the job creation and increased welfare. One of the efforts to be carried out by the government is maintaining economic growth acceleration through mixed policies, especially the fiscal-monetary. Recovery needs to be done so that no deeper economic contraction occurred by exploiting the momentum. However, in terms of policy, conducting the measurable policy adjustments is something controlable.

Through policy adjustments and monitoring its implementation, hence the weakening of national economy can be detained in 2020 even though there was an economic recession. However, the national economy was recorded grew -2.19% on Quarter IV-2020, which gets better after slumping on Quarter II- 2020 at -5.32% (Media Indonesia, April 10, 2021).

However, on the other hand, currently Indonesia’s manufacturing
exports grew 9% annually in February 2021. This can be used as a momentum in increasing the revenue. The signature products range from iron steel, precious base metals, basic organic chemistry from agricultural products. Performance improvement on the production-side of the economy mentioned above will be sustainable if accompanied by public demand-side recovery. According to Bank Indonesia, Consumer Confidence Index (IKK) have continued to improve since dropped significantly to 84.9 in January 2021 due to a drastic increased in daily positive cases (Kompas, 13 April 2021).

The actual economic performance currently has not been stable yet for the improvement momentum with the global economic uncertainty to be faced. This condition resulted from the different progress and distribution of vaccinations in every country. The developed countries (producers) tend to restrain vaccine distribution with reasons for national emergencies. In the same time, the vaccination euphoria in several Europe countries is facing the spread of new mutations of Covid-19 virus which will hinder the movement.

In 2021, the government already made the massive efforts, albeit the consequences of fiscal deficit widening than that stipulated by law. However, the government must remain to control the fiscal deficit to keep it under control. Limited budget in the implementation of fiscal and monetary policies to keep on giving the economic stimulus raises concern whether the private investment and public consumption can recover in ensuring the continuity on economic recovery. Domestic consumption that drives 59% of Indonesia’s GDP, is estimated wto be recover by expanding the vaccination momentum. However there are two questions that arise; first, how fast is the vaccination program can be implemented. Second, how fast that laid off workforce returned to work again. Not only the domestic consumption helps government spending in economic recovery, but both the private and BUMN investments need to be increased. Not only at the level-side, but also the productivity or effectiveness in boosting the economy growth (Bisnis Indonesia, 12 April 2021). Of course, the well planned changes has been proved to increase the economy growth. Indonesia’s economic contraction 2020 is the first momentum since the crisis in 1998, to accelerate faster the economic reform.

Safeguarding the Ongoing Recovery

In an effort of the sustainable economic recovery, health improvement policy must be done simultaneously. The government should also organize the sustainable vaccination according to the priority which is a game changer. Although until the date, Indonesia is included in the 10 countries to perform the fastest vaccination, however it does not mean to ignore the health protocols. Government and community had to continue the structural reform by pushing not only the public mobility and consumption but also maintaining the economic activity improvement does not cause the increased of Covid-19.
From the budget-side, government has provided stimulus, such as community social assistance and business incentives such as taxation. Even for MSMEs and corporate, the government has provided incentives amounting to IDR 184.83 trillion. Efforts which has been carried out by the government and with the helping of the Bank Indonesia (BI), OJK, and LPS, will bring the Indonesia’s economy this year to be in the range of 4.5% yoy to 5.3% yoy in accordance to the projection (kontan.co.id, 9 April 2021). Government policies, such as the obligation to provide religious holiday allowance (THR) and subsidies for national online shopping day (harbolnas) is expected encourage the economic movement. As, there will be a surge in demand during April-May 2021, although there is the restricted movement policy during the Eid holidays from Central government.

Various stimulus and social protection programs disbursed by the government do not directly increase the purchasing power, due to the spread of Covid-19 that still out of control despite the vaccination process that has been run. Consumer price index always has the similar cycle every Ramadan and Eid. However, the pandemic pressure became the blockage in the rate of community's purchasing power from 2020 until just before Ramadan 2021. However, Eid 2021 is better than the previous period last year. The resulted from the ongoing recovery process to the national since quarter III / 2020, and better mobility due to the vaccine program (Bisnis Indonesia, 10 April 2021).

Expectation for Indonesia’s economic recovery from the policy perspective is increasingly strengthened, as seen at the time entering the period of Ramadan and Eid 2021 which can be encouraging the community consumption. In leverage the economy during the quarter II- 2021, the policies include, First, the government has expanded the sales tax discount on luxury goods PPnBM) for cars that fulfill the terms. Second, the MSME credit stimulus amounting to IDR 400 billion starting from April 20 - June 2021 to increase UMKM debtor capital. Both stimulus are expected to boost the economy from the supply and demand side from April to June 2021.

Several indicators indicated that domestic production shows a positive sentiment. On last March 2021, Indonesia experienced trade balance surplus of USD 1.5 billion. Export reached USD 18.35 billion or a growth of 30.4% year on year / yoy. But the direction of economic recovery began to appear in the midst of Covid-19. Meanwhile, imports reached USD 16.79 billion or grew by 25.7% yoy. The increase becomes the recovery sign of domestic demand and production (Bisnis Indonesia, 19 April 2021).

The government has also provide a stimulus program through tourism sector grants and spending at the Ministry/ Institution. Bali Province, for example, received a grant of IDR 1.18 trillion for 9 districts / cities or 39.4% from the national allocation. While support from the Physical and Non-Physical of Special Allocation Fund (DAK) reached IDR 107.7 trillion. Besides, the government is also expanding
the coverage for business actors to benefit the investment guarantee facility through the enactment of PMK No. 32 / PMK.08 / 2021. With the enactment of this regulation, it is expected that more business actors will take the advantage of this facility and their businesses have the resistance to recover as the national economy recovers (kumparan.com, April 9, 2021).

However, the economic acceleration policy will still be slowing down and less optimal due to other policy that hinders the people movement. Prohibition to visit the hometown and extended PPKM (restriction on community activities) will hold back the economic activities and their derivatives. This will further deteriorate the transportation business sector and other economic activities related to the hometown visit ritual (Bisnis Indonesia, April 12, 2021). The economy rate from the consumption side will definitely decrease over the implementation time of hometown visit prohibition policy and PPKM. The visible indicator is from retail sales that are still growing negative at 17.1% in March 2021. This reflects the less optimal of consumption activity which has not fully recovered yet following the Covid-19 cases that is still growing. It is expected, the recovery momentum will be reached with the strategy that has already been starting in 2020 and currently with the presence of vaccine, as well as both the public trust and business world.

Closing
Revised to the Indonesia’s economic growth projection needs to be responded through the fiscal and monetary mixed policies. Policy adjustment and momentum of global economic recovery 2021 should be a reference in economic recovery by pushing the maximum growth. Sustainable economic recovery 2021 is not based only on the success in handling pandemic and vaccination programs, but also depends on the effectiveness of policy response taken in order to achieve the target of economic growth.

Commission IX of the DPR RI is necessary to carry out the strict surveillance against government programs in stimulating the consumption. Policy in the long run shall be focused to encourage the investment. It also needs to speed up the recovery by consistently implement vaccinations and improve the inter-policy coordination to maintain the trust of investor countries in Indonesia. Ministry of Finance together with BI and OJK, as well the support and supervision of the DPR RI continues to collaborate in preparing various mixed policies in order to accelerate the maximum recovery process for the business world.

References
“Akselerasi Kebijakan Tangkal Kontraksi Lebih Dalam”, Media Indonesia, 10 April 2021, page. 11.
“Konsumsi Jelang Ramadan: Gerak Inflasi Diprediksi Terbatas”, Bisnis Indonesia, 10 April 2021, page. 3.

“Progres Pemulihan Ekonomi Laju Konsumsi Tertahan”, Bisnis Indonesia, 19 April 2021, page.11.

Mandala Harefa, S.E., M.Sc., completed his Postgraduate Program, Master of Planning and Public Policy - Faculty of Economics, University of Indonesia. Currently he serves as the Senior Researcher for the Public Economic Policy expertise in the field decentralization and regional economy in charge of supporting the House of Representatives’ activities in providing data on the research results to compile the studies, analyze the policies, for the Council’s Body, and the Members of the DPR RI. As a researcher, he has conducted various field studies and his articles have been published in scientific journals and in the form of books. The topics related to public policy problems in accordance with the DPR’s function, including the state and regional finances, regional economies, and other public policy topics.