Ijtimā'iyya: Journal of Muslim Society Research
e-ISSN 2541-0040; p-ISSN 2541-2736; pages 97-106
DOI: https://doi.org/10.24090/ijtimaiyya.v7i1.7553

The Role of Fiscal Policy in Strengthening the Resilience of The National Economy (Fiscal Case Study During the Covid-19 Pandemic)

Farah Aunti Sholihah[1]*; Badriyatul Ulya[2]; Husnul Mirzal[3]; Shally Nur Rasyida[4]; Siti Zubaidah[5]
[1,2,3,4,5]Faculty and Business, Airlangga University, Indonesia
farah.aunti.olihah-2019@feb.unair.ac.id

Abstract

Due to the Covid-19 pandemic, Indonesia's economic growth rate reached negative 5.32 percent. In this problem, Indonesia manages its economic stability with fiscal instruments. This study aims to determine the role of fiscal policy in strengthening the resilience of the national economy during the Covid-19 pandemic. This research is a type of literature research that uses analytical techniques with a content analysis method that strengthens the role of the government, especially in fiscal policy in overcoming the Covid-19 pandemic in Indonesia.

Keywords: *fiscal policy; economic gowth; covid-19*

A. Introduction

The economic system adopted by a country will determine how much role the government plays in the development process and the pattern of policies carried out. In the annals of Islamic civilization, the state also functions as a vital role holder in regulating economic policies built on the principles of the benefit and welfare of the people. The form of role of the state in Islamic history over this issue is regulated through the institution of Baitul Mal (Fathurrahman, 2012). In the concept of economics in general, two prominent economic policies are known, namely monetary policy and fiscal policy. Monetary policy is the control of the financial sector, while fiscal policy is the management of the government budget (budget) to achieve development goals (Sriyana, 2005). Fiscal policy is one of the policies to control the macroeconomic balance. Fiscal policy aims to influence the aggregate demand side of an economy in the short term. In addition, this policy can also affect the supply side, which is more long-term in nature, through increasing economic capacity (Satya, 2014). Through fiscal policy, the government can influence the level of national income, employment opportunities, national investment, and the distribution of national income.

Historically, Indonesia's economic growth has fluctuated. 1980 was the peak point of Indonesia's economic growth reaching 10 percent. In 1998, Indonesia's GDP experienced a sharp decline to get a negative 13.7 percent due to the financial crisis. Due to the Covid-19 pandemic, Indonesia's economic growth rate has reached negative 5.32 percent. In this problem, Indonesia manages its economic stability with fiscal instruments. Therefore, this paper will discuss " The Role of Fiscal Policy in Strengthening the Resilience of the National Economy".

B. Research Methods

This type of library research is used to determine the role of fiscal policies set by the government in strengthening economic resilience in the midst of the Covid-19 pandemic. The source of this research data is secondary data taken from several books, previous research, and fiscal policy by the published government. The data analysis technique used is a content analysis method, where this research demonstrates the role of the government, especially in fiscal policy, in overcoming the Covid-19 pandemic in Indonesia.

C. Result and Discussions

1. The Role of Fiscal Policy in Strengthening Economic Resilience

The role of fiscal policy is essentially the elaboration of the fiscal policy itself. Fiscal policy is a policy issued by the government in the form of measures in the country's financial sector. These measures are carried out by changing or increasing the income and financing of the state. The goal is to adjust to the steady state of the economy. In other words, in general, the purpose of fiscal policy is to change the economic situation in a country and solve the financial problems faced by the goverment (Satya, 2014); the contextualization of this monetary policy includes macroeconomic stabilization and economic growth (Bank, 2016).

Fiscal policy objectives tend to differ between developed and developing countries. In developed countries, the role of fiscal policy is generally to maintain full employment and stabilize economic growth. In contrast, in developing countries, fiscal policy creates a suitable environment for rapid economic growth (Satya, 2014). Including part of fiscal policy in economic adjustment is its role as an instrument of stabilization and economic resilience (Malik, 2018). This role is the opinion of the classical school, which states that the government has no position in economic stabilization (Skousen, 2017) (Hamzah, 2018). Keynes introduced this role after the onset of the economic depression in 1930 (Pasaribu, 2014). When there is a financial crisis, generally, individuals will reduce their expenditure if their revenue decreases. At the same time, the government does not have to do so because if the government reduces its expenditure, then this action will be more troublesome or burdensome for the wheels of the country's economy (Malik, 2018). The figure in this approach is Alvin Hansen, who suggests that when an economic crisis occurs where there are many financial problems, the government's fiscal policy is one of the drugs to strengthen financial resilience to face the situation (Hansen, 1941). In further developments after the crisis, the use of long-term budgets is very necessary.In times of depression, deficit budgets are taken while in the period of inflation, are pursued with surplus spending budgets (Malik, 2018). Government expenditures will be determined based on estimates of the relative benefits and costs of a wide variety of programs, and taxes will be determined, thereby giving rise to a surplus in the period of full employment opportunities. If there is a setback in business activities, the government expenditure and taxation programs will not be changed, but revenues from taxes will decrease, especially from income taxes (Amri, 2020) (Malik, 2018).

In an effort to achieve stability and economic resilience, the government's fiscal policy is carried out with the approach of :

a. Preventing Unemployment

Prevention of the emergence of unemployment is the most important goal of fiscal policy. Failure to achieve full employment opportunities does not mean the non-achievement of the national income level and the optimal rate of economic growth but also has unpleasant consequences for individuals who suffer or who experience unemployment (Kumalasari, 2014).

b. Price Stability

Fiscal discretion in maintaining price stability is maintaining the general price at a decent level. A sharp drop in public prices will encourage the emergence of unemployment because the private business sector will lose hope of profit, even their profits will get smaller.

Furthermore, private investment is almost non-existent, especially when they expect prices to fall steadily.

Otherwise, if general prices continue to rise, it will also have an unfavorable impact. Inflation can create full-employment opportunities and provide benefits to some groups of people. Still, it will also complicate the lives of low-income people, especially those with fixed incomes (Malik, 2018).

c. Increase in employment opportunities

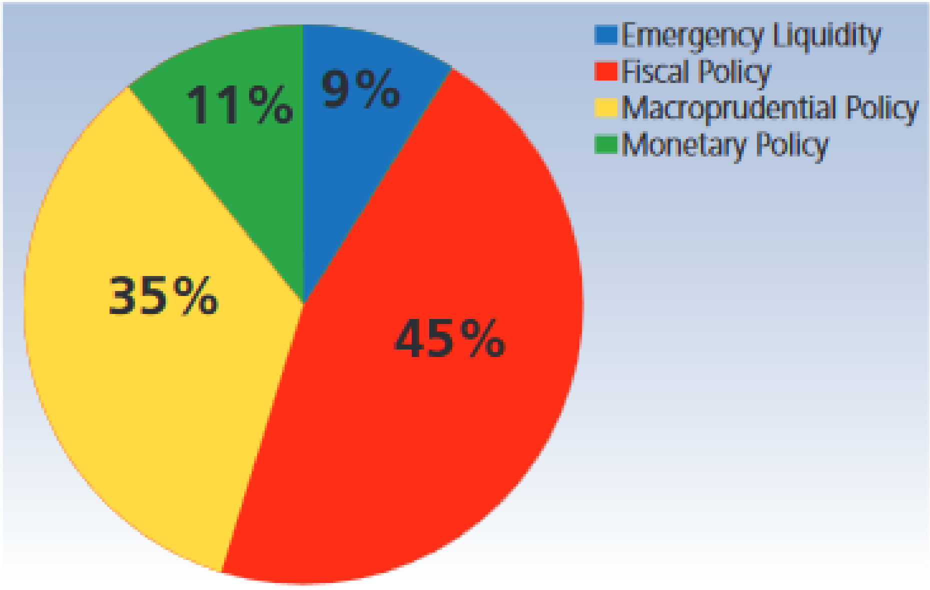
Fiscal policy in increasing employment opportunities is essential in maintaining economic stability. Because unemployment is a significant economic problem that poses another problem, fiscal incentives, in the form of tax rebates and concessions can be used to encourage the growth of industries that have a high potential for job creation (Satya, 2014).

d. Inequalities Minimization

Inequalities are one of the economic problems generally faced by developing countries. The minimization of inequality is carried out by increasing government spending on the poor. Fiscal instruments can be used to improve the distribution of incomes that help the poor through increased social spending. Reducing the rate of inequality will increase economic stability and resilience (Kumalasari, 2014).

2. The Government of Indonesia's Fiscal Policy in Facing the Covid-19 Pandemic

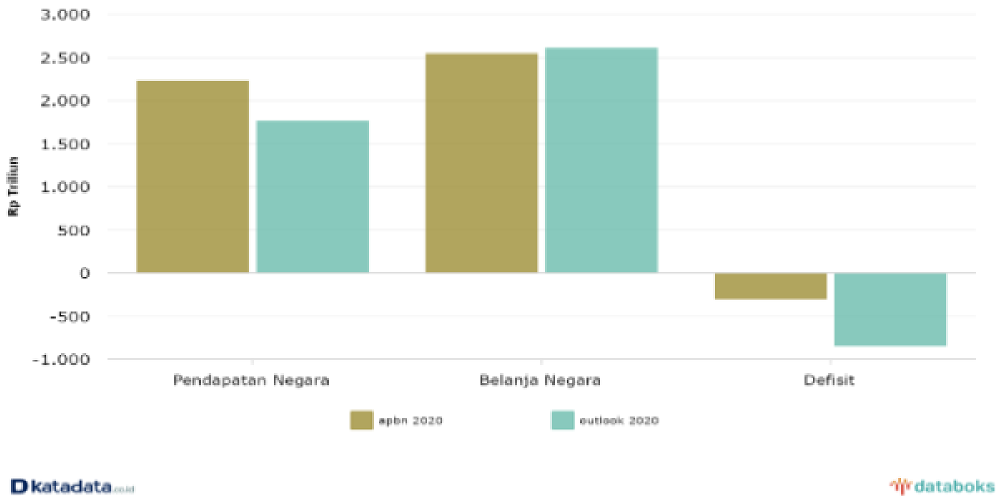
The COVID-19 pandemic not only has implications for health aspects but also presents severe challenges to the economy. Therefore, all levels of higher-ups in various countries are taking action to deal with covid-19 to reduce its impact on the socio-economy. In this regard, the Indonesian government is taking extraordinary steps from the fiscal side to protect the community and the economy amid the covid-19 outbreak. According to Yale University in (Suksmonohadi Indira, 2020), until April 2020, fiscal policies were most widely used (45% of total policy), macroprudential (35%), monetary (11%), and emergency liquidity (9%).



Yale University in (Suksmonohadi & Indira, 2020)

According to World Economist Olivier Blanchard said that there are three roles of fiscal policy amid the Covid-19 pandemic that support the Government of Indonesia's policy response. First, fiscal policy aims to fight infections, namely by incurring the costs necessary to deal with infections and incentivizing companies to produce tests, medicine, and vaccines so that the pandemic can be reduced and controlled. Second, providing funds for households and businesses affected by liquidity issues during the pandemic. Third, support aggregate demand by ensuring that the economy runs optimally with a new balance (with health protocols implemented) (Kacaribu, 2020).

In this case, the Indonesian government moved quickly through enacting Law (UU) No. 2\2020 concerning Government Regulations instead of Law No. 1 of 2020. Law No. 2 of 2020 contains fiscal stimulus, monetary policy mix, and financial sector policy. Where a fiscal policy is allowed to be very flexible with a deficit that can exceed the fiscal rule of 3 percent of GDP (Kacaribu, 2020).



Graph of State revenue and expenditure in 2020 (Silalahi Ginting, 2020)

a. Fiscal policy for State revenues

The COVID-19 pandemic raises various problems and obstacles the government must face in terms of State revenue. Tax revenue in the first quarter of 2020 was recorded to contract or minus 2.5%. Some of the tax instruments that are minus after being used for handling Covid-19 are Corporate Income Tax and Taxes in the context of Imports (PDRI) consisting of several types, namely Income Tax (PPh) article 22 imports, PPh article 22 exports, Value Added Tax (VAT) imports, and Sales Tax on Luxury Goods (PPnBM) (Silalahi Ginting, 2020). Therefore, the impact of the minus tax, state income and grants continues to decrease mainly due to the decrease in Corporate Income Tax Article 25\/29, which fell to 22.47 percent in June 2020 compared to June 2019 (Bappenas, 2020).

The COVID-19 pandemic has gradually made the government implement a targeted and measurable consolidative expansionary fiscal policy in the medium term. In terms of revenue, an acceleration was carried out to reduce the income tax article 25\29 of the body from 25 percent to 22 percent. In addition, the government also provides various tax stimuli, including exemption of Income Tax (PPh) paragraph 22 Imports in 19 specific sectors, provision of accelerated Value Added Tax (VAT) restitution, expansion of tax incentives appropriately, measurably, and based on economic justice, as well as exemption of Import Duties on specific sectors (Bappenas, 2020).

The Minister of Finance also issued PMK 23\2020, which provides tax stimulus for employees and the business world, namely employee income tax in the government, exemption from import income tax, and reduction of paragraph 25 income tax installments. In addition, the provision of value-added tax incentives\/facilities affected by covid-19 (Nainggolan, 2020).

b. Fiscal policy for government expenditures

In this case, the Government carries out a policy of refocusing activities and reallocating the budget. Therefore, the President of the Republic of Indonesia, Joko Widodo, issued Presidential Instruction Number 4 of 2020, which instructed all his staff to accelerate the refocusing of activities, reallocation of budgets and procurement of goods and services for handling Covid-19. The Ministry of Finance will reallocate state budget funds of Rp. 62.3 trillion. The funds are taken from the official travel budget, non-operational expenditures, honors, for handling\/controlling Covid-19, social protection (social safety net) and business incentives (Nainggolan, 2020).

In addition, by the Government Regulation insted of Law (Perppu) No.1\2020, the government has the authority to take actions that result in expenditure on the state budget where the budget for these expenditures is still not or insufficiently available. The government also has the authority to determine the processes and methods of procurement of goods and services and simplify the mechanism and simplification of documents in the field of state finance (Silalahi Ginting, 2020).

Regulation of the Minister of Finance (PMK) No. 43\2020 stipulates that the allocation of funds for handling the Covid-19 pandemic is allocated in the list of budget implementation fields (DIPA) of ministries and institutions (K \ L). Activities in addressing the Covid-19 pandemic are carried out based on allocations in the DIPA. If in urgent conditions, treasury officials can take actions that result in expenditures on the state budget whose funds are not available or not sufficiently known. Meanwhile, expenses with this urgent condition can only be carried out for covid-19 handling activities in the form of medicines, medical devices, health facilities and infrastructure, human resources, and other activities related to handling Covid-19 (Silalahi Ginting, 2020). The government spending stimulus was fulfilled from various schemes, namely through refocusing and realocating central expenditure and transfers to regional and village funds (TKDD) as well as additional expenditure allocations and focusing on PEN (National Economic Recovery).

Realisasi Belanja Pemerintah Pusat s.d. Juni 2020 (Triliun Rupiah)

Belanja Pemerintah Pusat	Perubahan APBN 2020 (Perpres 72/2020)	Realisasi s.d. 30 Juni 2020	% thd Perubahan APBN	% Growth (yoy)
Belanja K/L	836,4	350,4	41,9	2,4
Belanja Pegawai	256,6	114,1	44,4	(3,3)
Belanja Barang	271,7	99,2	36,5	(16,8)
Belanja Modal	137,4	37,7	27,4	8,7
Bantuan Sosial	170,7	99,4	58,3	41,0
Belanja Non-K/L	1138,9	318,1	27,9	10,3
a.l. Pembayaran Bunga Utang	338,8	157,6	46,5	16,9
Subsidi	192,0	70,8	36,9	(1,4)
Total Belanja Pemerintah Pusat	**1975,2**	**668,5**	**33,8**	**6,0**

(Kemenkeu, 2020)

D. Conclusion

There are two main fiscal policy components: the revenue component consisting of tax and non-tax, and the expenditure component, namely government spending. The role of fiscal policy is strongly influenced by the ideology adopted by a country, thus affecting the government's attitude in managing the country's economic activities. The Islamic principle of fiscal policy aims to develop a society based on the balanced distribution of wealth by placing material and spiritual values on the same level. In an effort to achieve stability and economic resilience, the government's fiscal policy is carried out with several approaches, namely, preventing unemployment, price stability, increasing job opportunities and minimizing inequalities. Fiscal policy is one of the policies to control the macroeconomic balance. Fiscal policy aims to influence the aggregate demand side of an economy in the short term. In addition, this policy can also affect the supply side, which is more long-term in nature, through increasing economic capacity. Through fiscal policy, the government can influence the level of national income, employment opportunities, national investment, and the distribution of national income. Amid the Covid-19 pandemic, the Indonesian government took extraordinary steps from the fiscal side to protect the public and the economy, namely budgetary policies related to state revenues in the form of accelerating the reduction of income tax article 25\29 of the agency from 25 percent to 22 percent and tax stimulus. Then fiscal policy related to state expenditures in the form of refusing and a budget reallocation.

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