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INDONESIA'S COVID-19 NATIONAL ECONOMIC RECOVERY PROGRAM: GETTING THE ECONOMY BACK ON TRACK

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Abstract
Since early 2020, the Covid-19 pandemic has significantly impacted the global economy, including Indonesia. The Indonesian economy contracted by 2.1% in 2020, leading to rising unemployment and poverty rates. To address these challenges, the Indonesian government implemented the National Economic Recovery Program (Program Pemulihan Ekonomi Nasional – PEN), a comprehensive policy package consisting of both substantive and procedural policy tools. Substantive tools targeted supply-side and demand-side interventions, such as tax incentives, interest subsidies, and social safety net expansions. Meanwhile, procedural tools facilitated the implementation of these policies through regulatory adjustments, budget reallocations, and institutional coordination. The PEN program was successful in mitigating the economic contraction in the short term, although its long-term effectiveness remains to be seen. This study examines the policy tools utilized by the Indonesian government in restoring the economy and evaluates their suitability within the Indonesian context.

Keywords: Covid-19, economic recovery, policy tools, Indonesia, National Economic Recovery Program (PEN), fiscal policy, social protection

A. INTRODUCTION

Since early 2020, Covid-19 has greatly impacted the global economy, including Indonesia. It imposes restrictions on goods and people, disrupting the supply chain, trade, and services. In 2020, the Indonesian GDP contracted by 2.1% 2020, reflecting a slowdown from both the business and household sides (BPS 2021). Unemployment in Indonesia rose 13.5% compared to 2019, and poverty increased 43% – ending the positive progress of a long declining rate since the 90s Asian financial crisis. To address Covid-19 and recover the economy, the government implemented policies through a mixed set of policy tools, from fiscal incentives, monetary policy, to social protection. Yet, the implementation is proved challenging. This essay will discuss various policy tools carried out by the Indonesian government in restoring the economy, why these tools were chosen and whether those policies are suited to the Indonesian context.

Policy tools are techniques in governing that help defines and achieve policy goals (Bali et al. 2021). These policy tools are usually mixed or combined as a policy package, so it might increase their effectiveness in carrying out policy objectives. Policy tools can be differentiated into two types: substantive tools, which influence how society produces, distributes and consumes goods and services, and procedural tools, which focus on affecting the behaviour of policy actors on how they deliver substantive policy tools (Bali et al. 2021). In the case of restoring the Indonesian economy due to Covid-19, the Indonesian government used a package of policies called the National Economic Recovery Program (*Program Pemulihan Ekonomi Nasional* – PEN). Through PEN, the Indonesian government spent about Rp 695.2 trillion on the budget, equivalent to 4.2% of Indonesian gross domestic product (GDP). In achieving its goals, PEN used several policy tools, both substantive and procedural. This essay will discuss substantive tools based on its target: policy tools for the supply side and demand side. Next, then this essay will discuss procedural tools used in PEN.

B. ANALYSIS AND DISCUSSION

There are several substantive tools used by PEN for easing contraction on the supply side. First, the government used tax incentive tools to ease business liquidity. These incentives included easing income tax for employees in industries impacted by Covid-19, exemption on income tax for export-import, 30% reduction on corporate income tax, and easing value-added tax (VAT) refund for businesses impacted by Covid-19. Second, the government gave interest subsidies to micro, small and medium enterprises (MSMEs). The government also gave mandatory debt restructuration and postponed instalments for credit by MSMEs for 6 months. Third, the government bailout and invested more in strategic state-owned enterprises. These three tools were chosen to ease business cash flow since most impacted industries lost more than 50% of their income due to Covid-19. These three tools were also considered the most suitable incentives in the Indonesian context. For instance, MSMEs were put as the main target since 97% of industries in Indonesia are MSMEs which account for 60% of Indonesian GDP. Furthermore, state-owned enterprises were given special attention due to some basic necessities, especially energy, which still relied on state-owned enterprises as the main source of supply.

Substantive policy tools were also used to support the demand side. First, the government expanded the social safety nets program. Since 2007, Indonesia has established regular conditional cash transfers (CCT) program called *Program Keluarga Harapan* (the Family Hope Program – PKH). This program covered 40% of the bottom welfare of the Indonesian population. Through PEN, this program was expanded to 50% of the population. The government also gave cash subsidies on staple food consumption through the Staple Food Card program (*Kartu Sembako*). In some regions, the government also gave unconditional cash transfers, which were transferred from the village funds cash budget (*Dana Desa*). Second, the government gave credit subsidies to personal credit. The household only paid a 6% interest rate for months' instalment for households' credit until 6 months. Many households lost a big portion of their income due to the pandemic, so the government helped them by easing households' cash flow through this policy. Lastly, the government also created Pre-Employment Card Program (*Program Kartu Pra Kerja*). It was basically a package of cash transfers and training for new skills that might be necessary for looking for a current job. This program targeted employees who lost their jobs due to the pandemic and those seeking jobs. Those three policies were considered the best option for the

Indonesian context since the pandemic impacted the most vulnerable people: people who live in poverty or just above the poverty line and who just lost their jobs.

The government also conducted a set of procedural tools to support the implementation of these substantive policy tools. First, the government created an “emergency” law, Government Regulation in Lieu of Law No.1, the year 2020, to enable fiscal policy discretion due to the pandemic Covid-19 (Crystallin and Abdurrohman, 2021). This law enabled the government to relax the fiscal deficit of the Indonesian budget from 3% to a maximum of 6% of total GDP. This regulation also allowed the government to shift the Indonesian budget to addressing pandemics and allocate almost one-third of it to PEN. Second, the government formed a special cross-ministerial team to handle the pandemic and implemented PEN. This team consists of the Coordinating Minister for the Economy, Coordinating Minister for Maritime Affairs, Coordinating Minister for Political, Legal and Security Affairs, Minister of Finance, Minister of Health, Minister of Home Affairs and Minister of Stated-Owned Enterprises. This team’s purpose was to ensure that covid 19 policy responses, including PEN, could be implemented effectively and simultaneously since the Covid-19 responses policy involved all of these ministries and needed a quick, agile policy implementation. Third, the government instructed all departments and local governments to refocus their budget to address Covid-19. This message was clear that Covid-19 became the main agenda at that time. They were encouraged to spend their budget as soon as possible, especially on labour-intensive projects, so it could help boost the economy. Lastly, the government also focused on maintaining the Unified Database (UDB) database for social protection. Previously, the UDB only covered 40% lower income of the population. During Covid-19, the government focused on expanding and improving the UDB through new surveys and voluntary registration. These four procedural policy tools are the foundation for implementing substantive policy tools.

In the long term, the government also implemented several policy tools to sustain long-term recovery. First, the government and Indonesian legislative ratified the tax harmonization law to support post-covid recovery. In this regulation, a permanent tax rate cut was given to corporate taxpayers from 25% to 22%, which will run since 2022. On the other hand, the government increased the rate for the personal taxpayer to 35% on income layer more than 500 million rupiahs. Furthermore, the government also raised the value-added tax (VAT) rate from 10% to 11%. Second, the government also proposed Job Creation Law (*Undang-undang Cipta Kerja*). Job Creation Law is a law cover diverse unrelated topics (omnibus law) that simplifies regulation on conducting business in Indonesia (Nurhanisah and Naufal, n.d.). These two policies aim to encourage people to invest more in business post-Covid-19 pandemic. Lowering corporate income tax might reduce the government’s revenue, but this might boost the business activities. Then the government can generate more income for the economic activities through the increase of VAT.

PEN was proven effective in reducing the Covid-19 pandemic impact on the economy. The policy mixed design is considered effective when it manifests the character of policy tools and the context of policy design (Howlett 2017). The government designed PEN as a comprehensive tool as possible. It is considered all possible impacted posts to address. It addressed both on supply-side and demand-side. PEN also considers each tool’s characteristics, whether they impacted the economy on the supply side or the demand side. Combined with the procedural policy tools and other policies conducted to respond to the pandemic, such as vaccination and monetary policies by the Central Bank, the PEN policy package of mixed tools might be the best answer for Indonesia to get the economy back on track. In 2020, Indonesia can minimize the economic contraction to just -2.1%, while other countries worldwide suffered an economic contraction of approximately -4% on average.

To sum up, PEN is considered a success in reducing the Covid-19 impact on the economic perspective, at least in the short term. The balanced combination of mixed short-term and long-term substantive tools and procedural tools complemented with the other policies on health might be the key of PEN to effectively reduce the effects of the pandemic Covid-19. Considering the Indonesian context, such as targeting the MSMEs and state-owned enterprises is also another key success in delivering the policy tools. However, in the long term, it might still need to be proved.

C. CONCLUSION

The National Economic Recovery Program (PEN) played a crucial role in mitigating the economic impact of the Covid-19 pandemic in Indonesia. By employing a balanced mix of substantive and procedural policy tools, the government successfully addressed both supply-side and demand-side disruptions. Substantive tools, such as tax incentives, credit subsidies, and social safety nets, directly supported businesses and households, while procedural tools facilitated the efficient implementation of these policies. The PEN program demonstrated effectiveness in stabilizing the economy, limiting the contraction to -2.1% in 2020, significantly lower than the global average of -4%. The program's success was largely attributed to its contextualized approach, targeting key sectors such as MSMEs and state-owned enterprises. However, the long-term sustainability of these policies remains uncertain. Further evaluation is necessary to assess the lasting impact of tax harmonization, job creation laws, and other structural reforms in ensuring Indonesia's post-pandemic economic resilience.

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