Research Article

Covid-19 in Indonesia: socio-economic impact and policy response

Farida Nursjanti[1] , Lia Amaliawiati[2]

[1]Faculty of Economics and Business, Widyatama University
[2]Faculty of Economics and Business, Widyatama University

[1]farida.nursyanti@widyatama.ac.id, [2]lia.amaliawiati@widyatama.ac.id

Article History: Received: 10 January 2021; Revised: 12 February 2021; Accepted: 27 March 2021; Published online: 20 April 2021

Abstract: The 2019 Covid-19 Corona virus has had an extremely strong impact in 2020, including Indonesia, on the dynamics of the global economy. In this study the focus is on examining the impact of Covid-19 in Indonesia on GDP growth, Micro Small Medium Entrepreneurs (MSMEs), the tourism sector, employment, and the poverty rate. With the limitation of international and national mobility, it will have a major impact on the level of GDP growth, and the tourism sector which has a large enough contribution and is linked to unemployment and poverty. Economic growth slowed to 2.97% in the first quarter of 2020 and contracted by 5.32% in the second quarter of 2020 (Bank Indonesia, 2020). The Indonesian economy in the fourth quarter of 2020 against the previous quarter experienced a growth contraction of 0.42 percent. Based on a survey conducted by Statistics Indonesia (BPS) of MSMEs in various regions in Indonesia, there were as many as 84 percent of micro and small businesses and 82 percent of medium and large businesses experiencing a decline in income since the Covid-19 pandemic occurred. During 2020, the number of foreign tourist visits to Indonesia reached 4.02 million visits or decreased by 75.03 percent when compared to the number of foreign tourists visiting in the same period in 2019 which totaled 16.11 million visits. The Covid-19 pandemic caused the open unemployment rate which was suppressed at 5.23 percent to increase by 7.07 percent. The percentage of poor people in September 2020 was 10.19 percent, an increase of 0.41 percentage points against March 2020 and an increase of 0.97 percentage points compared to September 2019. The Indonesian government issued various policies in response to Covid-19, including policies for the business world, policies for MSMEs, and policies for the poor in addition to several other policies.

Keywords: COVID-19, GDP growth rate, tourism sector, MSMEs, unemployment, poverty, Indonesia

1. Introduction

Corona Virus Disease 2019 (Covid-19) has had a enormous impact on the dynamics of the world economy in 2020. Covid-19 spread very quickly to 178 countries or 99.5% of world GDP. With the scale and speed of its spread that is very high, In March 2020, the World Health Organization declared Covid-19 to be a global pandemic. During 2020, this pandemic has infected more than 85 million people and resulted in the death of more than 1.8 million people. This condition not only caused a health and humanitarian crisis, but also resulted in an economic crisis. This health and humanitarian crisis has resulted in contractive economic growth that is evenly distributed in various parts of the world. This unfavorable development for the economy cannot be avoided as a result of the implementation of mobility restriction policies to reduce the spread of Covid-19 (Bank Indonesia, 2020; Adell et al., 2019).

Restrictions of movement across the world resulted in a imediate economic decelarate, with domestic investment and consumption decreases and local and global supply chains being disrupted. Travel and tourism, as well as retail and other service industries, have been impacted; business activities, as a result of supply chain disruptions, have been disrupted; and jobs and livelihoods have been compromised (ASEAN Secretariat, 2020).

The IMF had previously decreased its effect, with just 0.1 percentage points expected to be reduced to 3.2 percent. On the 4th of March, it revised its forecast to below 2.9 percent in 2019, before announcing on 23 March a recession in the global economy (IMF, 2020). In the assessment report published on 2 March of the effect of outbreak COVID-19, the OECD (2020) predicts a reduction of 2.4% to 2.4% or nearly halving to 1,5% in case of a prolonged global outbreak by 0.5% as a result of its original forecast of 2,9% global growth for 2020. Recently the Asian Development Bank (ADB) released its Asian Development Perspective 2020 and anticipated 2.2 percent growth for Developing Asia in the light of the COVID–19 outbreak and 1.0 percent growth for Southeast Asia in the backdrop of China's downward growth. Similarly, Indonesia growth forecasts have been downward revised. In the period leading up to the outbreak Indonesia projected 5.3% growth in 2020; by 1 April the prediction was cut to 2.3% by 0.4%. These lower forecasts indicate the extent of the impact of the outbreak compared to those predicted in December 2019. (ASEAN Secretariat, 2020).

Indonesia entered the positive case cycle of Covid-19 in early March 2020, which in a short time spread rapidly to various parts of Indonesia. The government immediately takes policies to reduce the spread of Covid-19, including through policies to limit mobility. This policy strengthens the 3T (Tracing, Testing, Treatment) health management policy, which is then implemented through health protocols using masks, washing hands, and maintaining distance. In line with this policy, a number of Regional Governments have implemented a PSBB policy since April 2020 (Bank Indonesia, 2020).

Large-Scale Social Restrictions (PSBB) are implemented in various forms of restrictions, including school from home (SFH), work from home (WFH), closure of public facilities, recreation and places of worship, and restrictions on the operation of public transportation. The immediate response of the Indonesian Government to reduce Covid-19 spread through the PSBB inevitably reduces economic performance. Policies to address Covid-19 spread have reduced human mobility and activities of goods and services. Consumption, investment, transportation, tourism and production decreased significantly, which in turn caused economic growth to fall sharply. In the first quarter of 2020 economic growth slowed to 2.97%, while in the second quarter of 2020 it contracts to 5.32% (Bank Indonesia, 2020).

Travel and tourism are the most affected industries in ASEAN. There have been extensive restrictions on travel, including within the region, which form the basis of the tourism industry. In 2018, tourism and travel made a significant contribution to the ASEAN economy of around 12.6% (Association of Southeast Asian Nations, 2020). The pressure on the tourism sector in Indonesia is due to a decrease of 2.9 million in the number of foreign tourist arrivals in January-May 2020, a decrease of 53.36 percent composed of 6.3 million visits in the previous year's figure (BPS, 2020b). The decline also occurred in domestic tourist visits, especially Indonesians who were reluctant to travel, because they were worried about the impact of Covid-19 (Kartiko, 2020). The decline in the tourism sector has an impact on Micro Small Medium Enterprise (MSME) businesses and employment. So far, the tourism sector is a labor-intensive sector that absorbs a lot of labor (Sanaubar et al., 2017). The effects of this pandemic also have a direct or indirect impact on tourism in Indonesia. The weakening of the tourism sector also has an impact on high unemployment (Utami and Kafabih, 2021).

The OECD summary of 40 surveys in member and partner states indicates that more than half of MSMEs have a considerable loss in their incomes and are afraid to be out of business unless public assistance is available and extended over the duration of the crisis. There is evidence that SMEs are digitizing businesses to adapt to changing circumstances, but there have been temporary closures, reductions in employment and wage and bankruptcies. Income and profit tax deferences, loan guarantees and direct credit to SMEs and wage subsidies are the most common policy instruments to reduce the effects of the crisis (OECD, 2020).

The International Labor Organization projected the COVID-19 pandemic to reduce work time by 6.7%, which corresponds to 195 million in full-time employees worldwide, including 125 million full-time Asian and Pacific workers. Social distance measures, which account for approximately 81% of the world's labor force, affect around 2,7 billion people. United Nations (2020) also stated COVID-19 impact on the labor market. Unemployment, for example, is expected to rise by 2.5 percentage points in Indonesia, 1.5 points in Malaysia, and 1.2 points in the Philippines.

The Indonesian people, especially households, are increasingly feeling the instability of the economic conditions due to the COVID-19 pandemic. Household consumption, as the main pillar of the economy, slowed down significantly, which in turn affected the performance of industry and MSMEs. Indonesian households are affected by two sides simultaneously, namely a contraction in income and limited space for consumption. Income contraction occurs due to layoffs, reduced salaries, and decreased operating profits. Meanwhile, the limited space for consumption is due to, among others, restrictions on community mobility (Nugroho, 2020).

Indonesia's poverty rate in March 2020 increased to 9.78 percent, mainly in urban areas, compared with 9.41 percent in September of 2019. 1,63 million more were made poor, bringing the poverty rate back near September 2018 (9.82 percent). The government expects the poor rate to reach around 10.6 percent by 2020, with approximately four million other people below the poverty line. The World Bank has estimated the rate of poverty to rise to 10.7% (small scenario) or 11.6% (severe scenario).

The anticipatory effects of COVID-19 have resulted in governments around the world adopting massive relief packages. On 4 March 2020, the Chinese Finance Minister announced an epidemic management measure of a Special Fund totalling CNY 110.48 ($16 billion). China is also providing support to provincial governments by providing the CNY 1.85 trillion ($261 billion) quota of new local government bonds issues (Huang et al., 2020).

Various other EU, Australian and East Asian countries have announced pandemic relief packages. Several studies showed that the pandemic shock could lead to a financial crisis (IMF, 2020).

All countries in Southeast Asia have announced fiscal packages to support affected companies and households, with an average GDP value of approximately 3.5%. Examples of fiscal measures include support for health workers and companies, or wage subsidies for employees. The decline in the fiscal position of countries is anticipated by increased spending and weakened economic conditions. The IMF has estimated that the deterioration could reach 15% of GDP for South-East Asian countries. Public debt levels are also anticipated to rise. Not all countries in South-East Asia are able to borrow from national or international capital markets. Not all countries in South-East Asia are able to borrow from national or international capital markets. Southeastern Asia has consolidated fiscal budgets (Lao PDR), repriorized government expenditure (Malaysia, Cambodia) and improved revenue collection and allocation efficiencies to support increasing spending (Lao PDR). Additional action is being taken by Vietnam to speed up public investment disbursements. In some cases, multilateral institutions have been turned to overcome funding gaps. The World Bank, for instance, has benefited from the Faster Track Facility COVID-19 in Cambodia, Indonesia, Lao PDR, Myanmar and the Philippines as well as other forms of financial assistance. The Asian Development Bank has also provided financial help to Indonesia, Lao PDR and the Philippines (United Nation, 2020).

The Indonesian government issued different policies in response to Covid-19, including business policies, small and medium enterprises policies, and poor people policies in combination with a number of other policies. The government pursued an expansionary fiscal policy in order to overcome the the pandemic impact both in terms of health and humanity, as well as in terms of its economic impact which fell sharply.

In this study the Covid 19 impact on the MSMEs, the tourism sector, unemployment and poverty rate in Indonesia on GDP growth is analysed. This study is also complemented by explanations of various policies issued by the government to reduce the negative impact of Covid-19 in Indonesia, especially those related to policies to support businesses, MSMEs and the poor.

2. Literature Review

It is difficult to design the proper instrument to measure its exact effect on the economy, making it even hard to develop a suitable strategy and macroeconomic response for government and policy-makers addressing the virus' economic impact. COVID-19's economic impactis extremely uncertain (McKibben & Fernando, 2020). A theory of keynesian supply shocks is presented (Achou et al., 2020), which argues that supply shocks always boost aggregate demand than shocks themselves. They conclude further that the economic impact of COVID-19 such as industry shutdown, unemployment and company exits might have this feature. A comprehensive review of the socio-economic assessment of the COVID-19 pandemic, Catherine, Miller and Sarin (2020), divided the total economy into three sectors, primary, secondary and tertiary, was presented.

The consequences of COVID-19 for the society and economy of India were analyzed by Aneza and Ahuja (2020). A lying impact assessment is conducted in all three industries - primary, secondary and service - with the impact on informal sector, poverty, job losses migrants, and health. There has been a disproportionate loss in all sectors of the economy and in one sector, even. The societal impact is also serious with loss of work, psychological illness, and increased domestic violence.

Ozili (2020) has examined the impact of socio-economic on Covid-19 in Africa and its response of policy. Coronavirus pandemic affected countries of Africa and its impact on African regions in comparison to other regions was more severe. The growing pandemic has affected social and economic interaction through policies on social distance imposed in several African countries with differing levels of stringency.

Impact on the areas affected such as MSMEs, retail, capital markets, tourism, aviation, and oil in India has been explored by Chaudary et al, (2020). Internal and international mobility is limited, and GDP growth will be greatly influenced by tourism and travel revenues, which accounts for 9.2% of GDP. In March, oil decreased to $22 a barrel for 18 years, and FPIs withdrew large quantities from India, some USD 571.4 million. Revenues from aviation will fall by USD 1.56 billion. While the current account deficit is decreasing, lower oil prices are boosting reverse capital flows. A serious cash crunch is underway for MSMEs. The crisis saw a horrific mass exodus, among countrywide lockdowns. Their concerns were mainly job loss, lack of a social security network and daily ration. India needs to think about and make it more inclusive of its development paradigm.

Aduhene (2021) stated that the pandemic of coronavirus had a negative impact on the Ghanaian citizens' socio-economic situation. While the first two months of the pandemic in Ghana have estimated that an estimated 42,000 people have lost their jobs, only the country's tourist attractive sector in the past 3 months lost $171 million due to the partial lock-out and closure of tourism and hostels. The study revealed that Ghana may turn the COVID-19 challenges into prospects and opportunities through massive investments in the health sector and support for small and medium-sized enterprises, which creates large numbers of Ghanaians.

3. Methodology

Total cases of COVID-19 data in Indonesia was collected during the period March 2020 to December 2020 from National Task Force Covid-19. From the publications of Bank Indonesia and Statistics Indonesia (BPS) Indonesia, the annual data series on GDP growth, the number of foreign tourist visits to Indonesia, unemployment rate and the of poor people in 2020 were collected. Indonesia's policies in pandemic situation collected from Ministry of Finance. Other supporting sources come from different web institutions, including the United Nations, IMF, ADB, and ASEAN. The analysis of the socioeconomic effect of Covid-19 is based on discourse analysis. in Indonesia with a focus on the impact on GDP growth, MSMEs, the tourism sector, unemployment, and poverty levels.

4. Results and Analysis

Trend of Covid in Indonesia

Data shows that the spread of Covid-19 in Indonesia continues to increase until the end of 2020 as shown in Figure 1.

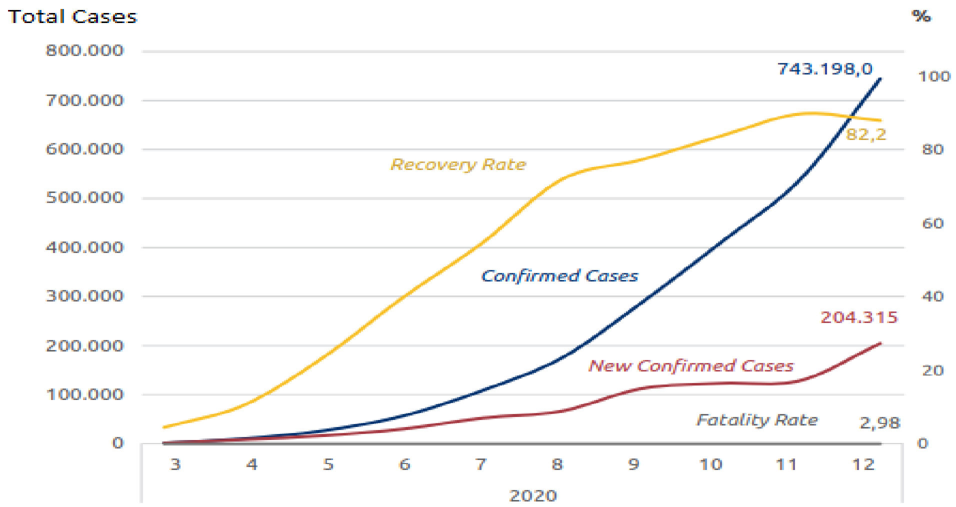

Figure 1. Covid-19 Cases in Indonesia
Source: National Covid-19 Task Force (December, 2020)

Impact on GDP Growth

BPS (2020c) stated that economic growth in Indonesia in 2019 reached 5.02% year-on-year (Y-o-Y). In the first half of 2020, the Indonesian economy came under deep pressure. The pressure came from the decline in exports in line with the global economic downturn and disruptions to world supply chains. In addition, pressure was also influenced by reduced mobility in line with the PSBB. As a result, GDP contracted quite deeply in the second quarter of 2020 and occurred in almost all economic sectors. The tourism and transportation services sector is the sector most affected by low mobility.

The impact of Covid-19 put a heavy pressure on the Indonesian economy in the first half of 2020. On one hand, efforts to limit mobility in Indonesia need to be done because since it was first declared that Indonesia was infected in early March 2020, Covid-19 spread very quickly throughout Indonesia. Until the end of December 2020, the number of positive cases of Covid-19 nationally reached 743,198 people with a recorded death toll of 22,138. On the contrary, the policies of the Government to reduce the spread of Covid-19 through the implementation of mobility restriction policies, including the implementation of health protocols and PSBB in several areas has inevitably reduced the economic activity of the people sharply. Figure 2 show economic growth in Indonesia slowed down to 2.97% (Y-o-Y) in the first quarter of 2020 and 5.32% contracted (Y-o-Y) in the second quarter of 2020 (Bank Indonesia, 2020).

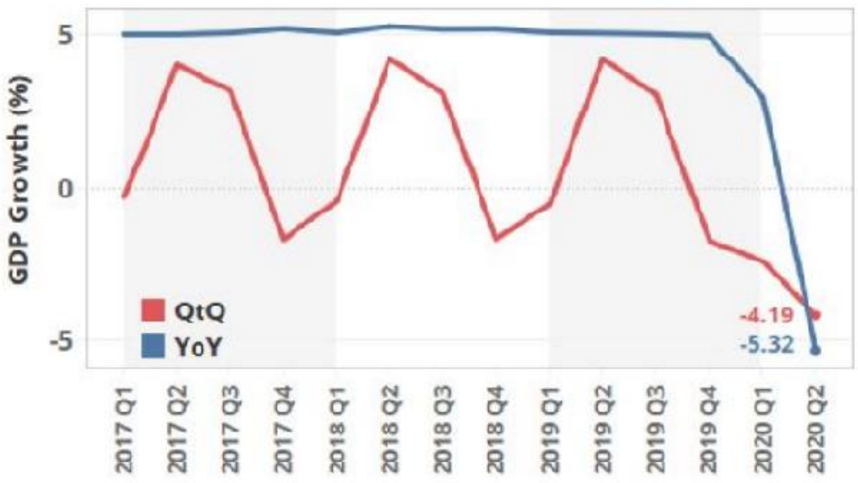

Figure 2. GDP Growth (%)
Source: WFP Based on Statistics Indonesia (BPS) data (2020)

Household spending has accounted for 58% of GDP and has been 5.5 percent contracted (Y-o-Y), which is conducted mainly by drop in restaurant and hotel expenditure (-17%), transport and communication expenditure (-15%) and is probable to be the result of social distancing COVID-19 in several regions; these include corporate closures, restrictions on movement and a transfer to homemade food (Figure 3). The annual positive growth for household spending on housing and home equipment (2.4%), and education and health (2%) indicated that families with less essential needs have been spending more. Sectorally, 10 of 17 industries report negative growth of Y-o-Y, with the largest decline of housing, food, and beverages (-22%) and transport and storage (-31%). There was highest positive growth in the Information and Communications sectors (119%). This is likely the effect of domestic and distance learning policies and the use of platforms online. Farming, fisheries and forestry registered 2.2% Y-o-Y (WFP, 2020).

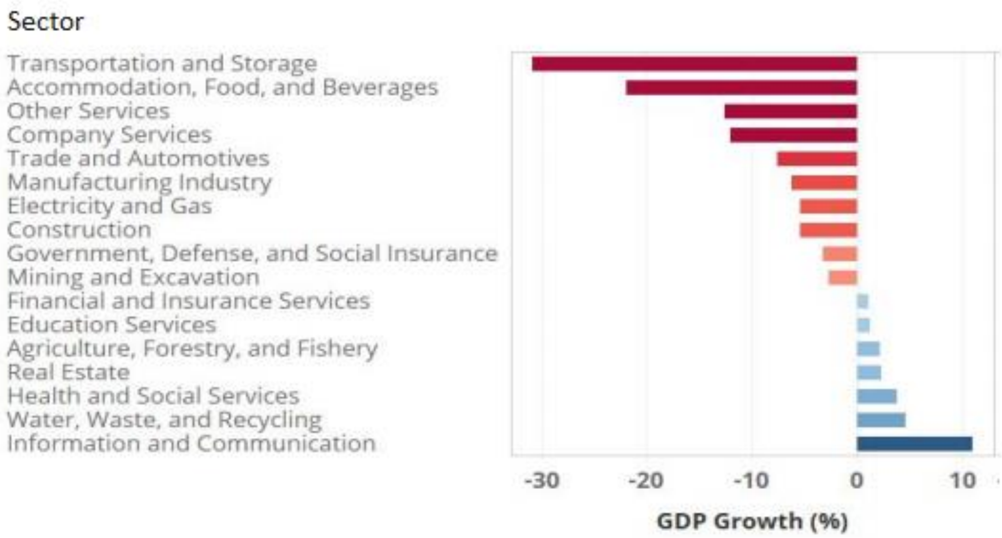

Figure 3. GDP Growth by Sector (%) 2020 Q2
Source : WFP Visualization Based on Statistics Indonesia (BPS) data (2020)

In semester II, economic growth began to improve in line with the easing of the PSBB, the impact of the increased realization of fiscal stimulus, and the improvement in the global economy. The increased realization of Government spending provided a fiscal stimulus to support consumption, especially the lower class, and made handling of Covid-19 more quickly and effectively. Increased mobility also supports the recovery of household consumption, particularly transportation, restaurants and hotels consumption. This recovery in consumption has an impact on improving investment performance, particularly non-construction investment. Meanwhile, the improving global demand, particularly from China and the United States, has driven export improvements in several commodities, such as iron and steel, pulp and paper, clothing and textile fibers. With these developments, the contraction in economic growth in the third quarter eased to 3.49% and is predicted to improve in the fourth quarter, so that the overall 2020 is predicted to be in the range of -2% to -1% (Bank Indonesia, 2020).

Impact on Tourism sector

The existence of a large-scale social restriction policy (PSBB) and the closure of recreational and entertainment venues aimed at suppressing the spread of Covid-19 have caused people's mobility to decline, this has had a sizable economic impact on the tourism sector. In December 2020, Indonesia's foreign tourism numbers dropped sharply by 88.08% compared to those of December 2019. However, compared with the previous month of November 2020, this condition experienced an increase of 13.58 percent.

In 2020 there were 4,02 million foreign tourist visits to Indonesia, or decreased by 75.03 percent when compared with the same period in 2019 of foreign visits, which totaled 16.11 million visits. The Room Occupancy Rate (ROR) of star-classified hotels in Indonesia in December 2020 reached 40.79% on average or decreased by 18.60 points compared to the ROR for the same month in 2019 which was recorded at 59.39 percent. On the other hand, when compared to the previous month, the ROR for December 2020 had an increase of 0.65 points. The average stay period for Indonesian and foreign guests in star hotels in December 2020 was 1.61 days or 0.15 points lower compared with December 2019 (BPS, 2020).

Impact on MSMEs

The majority of business actors surveyed stated that their income had decreased since the Covid-19 pandemic in Indonesia. Based on the Covid-19 Impact Survey report conducted by National Statistics (BPS) in July 2020, the majority of micro, small businesses, medium and large enterprises reported a decrease in income. On the other hand, only about 13 percent of micro and small businesses and 15 percent of medium and large enterprises stated that they had regular income. Then, only 2 percent of the micro and small businesses and 3 percent of the medium and large businesses stated that there was an increase in income. When viewed from the business sector, there are 2 sectors that have experienced a very deep decline, namely accommodation and food and drink, as well as transportation and warehousing as well as the construction, processing and trade industries. From an operational perspective, the majority of micro-small businesses and medium-large business esare still operating normally with a proportion of 49.4 percent and 59.8 percent, respectively. Then, about 5 percent of micro-small businesses and 10.1 percent of medium-large business have reportedly stopped operating due to this pandemic Timorria, 2020).

The government made several efforts to restore MSMEs during the Covid-19 pandemic, including through the National Economic Recovery (PEN) program with a budget allocation for MSMEs of IDR 123.46 trillion of the total cost of handling Covid-19 of IDR 695.20 trillion (Situmorang, 2020).

Impact on unemployment

According to information validated by the Ministry of Manpower, nearly 1,8 million informal workers in Indonesia suffered from the pandemic from 1 April to 27 May 2020 380,000 workers were dismissed amongst formal workers, with 1,1 million dumped. There were also affected lives of 319,000 informal workers. Of these, 500,000 received social support. In addition, data from 1.3 million additional workers reportedly suffered from COVID-19 are currently being reviewed by the MoM. As a comparison, an estimated 6,4 million people were fired by the Indonesian Chamber of Commerce and Industry (KADIN) by 2020, including 2,1 million textile workers, 1,4 million land transport workers, 500,000 employees in the electronics industry and footwear industries, and 430,000 employees in hotels. It is estimated by Bappenas that another 4 million to 5.5 million people will be unemployed by 2020 to 10.7 million to 12.7 million. Unemployment, in August 2020, could reach 8.1 to 9.2 percent and, in 2021, 7.7 to 9.1 percent, the highest in a decade. According to Bappenas' projections, construction, manufacturing, trade, lodging and F&B as well as business services are the areas where most workers are shedded. In Feb 2020 unemployment was 4.9 per cent, which is equivalent to 6.9 million people according to statistics Indonesia (WFP, 2020).

Based on national statistical data, in the August 2020 period, the number of unemployed people increased by 2.67 million people. Thus, the number of unemployed labor force in Indonesia will be 9.77 million people. The Covid-19 pandemic caused the open unemployment rate which was successfully suppressed at 5.23 percent to increase by 7.07 percent. The increase in unemployment rate occurred because there was an increase in the workforce as of August 2020 by 2.36 million people to 138.22 million people. Although there was an increase in the labor force participation rate by 0.24 percentage points to 67.77 percent, there was a diminishing in the number of working people. The population who worked in the August 2020 period was 128.45 million people, or a decrease of 0.31 million people compared to the August 2019 period. On the other hand, there was a decrease in the number of full-time employees by 9.46 million workers. Meanwhile, there was an increase in the number of part-time or underemployed workers by 4.83 million people. Overallthe number of pandemic workers affected based on BPS data reached 29.12 million people. This figure is equivalent to 14.28 percent of the total working age population which reaches 203.97 million people.

Impact on Poverty

BPS (2020a), recorded an increase to 9.78% in March 2020 from 9.41% in September 2019. Between September 2019 and March 2020, 1.63 million more people have fallen into poverty - almost to the level of September 2018. Poverty levels increased primarily in urban and Java areas. In March 2020, nearly 80% of the newly poor live in urban areas (1,3 million people), nearly four times the extra rural population (0.3 million).

In 2020, the government estimated that another 4 million people would fall below the poverty line, making the total population of 28 million people approximately 10.6%. In a mild scenario, the World Bank projected that poverty would rise to 10.7% or 11.6% under severe shocks (WFP, 2020). Figure 4 show Indonesia poverty rate from 2014 to 2020.

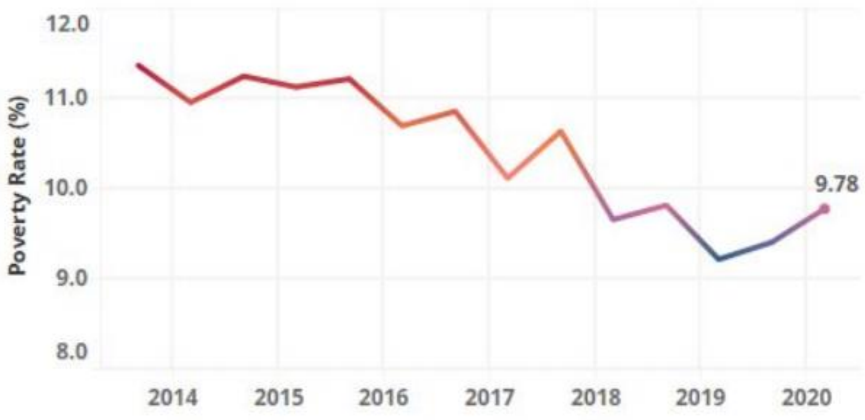

Figure 4. Indonesia Poverty Rate
Source : WFP Visualization Based on Statistics Indonesia (BPS) data (2020)

The increase in the number of unemployed has also contributed to an increase in the number of poor people. BPS (2020a) data shows that the number of poor people in Indonesia reached 27.55 million people in September 2020. This number has increased by 2.76 million compared to the position in September 2019. This figure has brought Indonesia's poverty back to the level of 10 percent of the total population, namely 10.19 percent. Thus, the downward trend in the poverty rate that occurred until 2019 has stopped. This is because the impact of the pandemic began to be felt in the first quarter of 2020. The percentage of poor people increased to 9.78 percent, or an increase of 0.37 percent from March 2019. BPS (2020c) noted that Indonesia's poverty percentage was 9.82 percent in March 2018. The lowest point of poverty was reached by Indonesia in September 2019, namely 9,22%. However, after that, the trend changed direction again. In March 2020, the percentage of poverty in Indonesia rose to 9.78 percent. Even so, the Ministry of Finance stated that the increase in the number of poor people that occurred in Indonesia was better than the projections of the World Bank. The world financial institution projects that Indonesia's poverty rate could reach 11.8 percent due to the Covid-19 pandemic. This means that the National Economic Recovery Program (PEN program) throughout 2020 is estimated to be able to save more than 5 million people from becoming new poor.

Policy Response

The Indonesian government issued several policies in response to Covid-19, including policies for the businesses, policies for MSMEs, and policies for the poor in addition to several other policies (Ministry of Finance, 2020).

Indonesian government policies in supporting businesses, among others:

1. Value-Added Tax (VAT) borne by the government on the pharmaceutical and / or drug production pharmaceutical industry for the import or acquisition of vaccine and / or drug raw materials for handling COVID-19, is valid until December 2020.
2. VAT borne by the government to taxpayers who obtain vaccines and / or drugs for handling COVID-19 from the pharmaceutical industry for producing vaccines and / or drugs, is valid until December 2020.
3. Exemption from Income Tax (PPh) 22 Import and / or Income Tax 22 on the import or purchase of raw materials to produce vaccines or drugs for handling COVID-19 by the pharmaceutical industry for producing vaccines and / or drugs, is valid until December 2020.

4. Facilities for exemption from import duty, excise, sales tax / luxury sales tax, and Income Tax 22 on imported goods for handling COVID-19 which are included in attachment Minister of Finance Regulation (PMK) Number 34/2020 as amended by PMK 83/2020 which has been amended by PMK 149/2020.
5. Import duty incentives are borne by the government on raw materials imported by 33 industrial sectors affected by the Covid-19 pandemic with varying import duty borne by the governmnet ceilings. Valid from 22 September 2020 until December 31, 2020. Details can be seen in the Minister of Finance Regulation (PMK) Number 134 / PMK.010 / 2020.
6. Free issuance of Certificate of Origin (SKA) services for all exporters. Valid as of October 10, 2020 until 31 December 2020.
7. Government guarantees for labor-intensive corporate working capital loans amounting to IDR 10 billion to IDR1 trillion with the following categories of corporations: (1) export-oriented and / or labor-intensive with a minimum of 300 employees; (2) does not belong to the category of state medium enterprises and SMEs; (3) not in the list of legal cases and / or bankruptcy suits; and (4) has a smooth performing loan before the COVID-19 pandemic. The guarantee portion is 60% of credit, and for the priority sector guaranteeing 80% of credit.
8. Government support for the labor-intensive corporate guarantee scheme consists of: (1) subsidies for guarantee services; and (2) stop loss guarantee service fee shall be borne by the government.
9. Support for lending for labor-intensive corporate working capital is provided through the placement of funds with partner commercial banks, including Himbara Bank, Regional Development Bank, and other commercial banks that meet the criteria.
10. PPh 21 is borne by the government for 1,189 certain industrial sectors, and companies in bonded zones.
11. Exemption of import PPh 22 for 721 certain industrial sectors, Ease of Import for Export Purposes (KITE) companies, and companies in bonded zones.
12. Reduction of PPh 25 installments from the previous 30% to 50% for 1,013 certain industrial sectors, KITE companies, and companies in bonded zones.
13. Accelerated VAT refunds for 716 certain industrial sectors, KITE companies, and companies in bonded areas where the VAT overpayment is a maximum of IDR 5 billion.
14. Final PPh for construction services is borne by the government for taxpayers in the program to accelerate the improvement of irrigation water use.
15. All incentive points 10 to 15 are awarded until the tax period of December 2020. Submission of incentive applications can be made online via www.pajak.go.id.
16. Details of industries that are entitled to incentives can be seen in the Minister of Finance Regulation (PMK) Number 86 / PMK.03 / 2020 as amended by PMK Number 110 / PMK.03 / 2020.
17. Decrease the general corporate income tax rate from 25% to 22% in 2020 and 2021, and 20% in 2022.
18. The reduction in Income Tax rates is 3% lower than the general rate for public companies, with the total paid-up shares traded on the IDX at least 40% and meets the requirements as stipulated in PP 30/2020.
19. VAT and Income Tax imposition on electronic transactions.
20. Extension of the period of application / completion of tax administration.

To support Micro, Small and Medium Enterprises (MSMEs), Indonesia issued several policies that include:

1. Direct cash assistance (BLT) of IDR 2.4 million for ultra micro-micro business actors who are not currently receiving working capital credit from banks or financial institutions (unbankable), or whose deposits in banks or financial institutions are below IDR 2 million, have a identity card and not government / army / plice / state entreprise / regional owned enterprises employees. This program is targeted for 12 million Micro Small and Medium Enterprises (MSME) throughout Indonesia.
2. Final income tax of 0.5% (PP 23/2018) is borne by the government for MSME. MSME taxpayers do not need to make tax deposits and tax cutters do not make tax deductions when making payments to MSME.
3. Incentive point 1 is given for the tax period April 2020 to December 2020. Submission of incentive applications can be made online via www.pajak.go.id.
4. Interest subsidy / margin subsidy is given to debtors of micro, small and medium enterprises, with a maximum credit / financing ceiling of IDR 10 billion, within a maximum period of 6 months. Starting from May 1, 2020.
5. Criteria for the recipient of the interest subsidy / margin subsidy: (1) have a credit / financing debit tray up to. February 29, 2020; (2) not included in the National Black List; (3) has a current performing loan category (collectibility of 1 or 2) calculated as of February 29, 2020; and (4) have a Tax ID Number (NPWP) or register for an NPWP.
6. Debtors with a cumulative credit / financing ceiling of more than IDR 500 million up to. IDR 10 billion must obtain restructuring from credit / financing lenders.
7. For debtors who have several cumulative credit / financing contracts of IDR 500 million up to. IDR 10 billion, interest subsidy / margin subsidy is given for a maximum of 1 credit / financing agreement.

8. The amount of interest subsidy / margin subsidy for debtors from government credit program channeling institutions with a credit / financing ceiling: (1) up to d. IDR 10 million, a maximum of 25% for 6 months; (2) IDR 10 million up to IDR 500 million at 6% for the first 3 months and 3% for the following 3 months; and (3) IDR 500 million to IDR 10 billion at 3% for the first 3 months and 2% for the following 3 months.

9. The amount of interest subsidy / margin subsidy for debtors from banks or finance companies with a credit / financing ceiling: (1) up to d. IDR 500 million at 6% for the first 3 months and 3% for the following 3 months; and (2) more than IDR 500 million up to. IDR 10 billion at 3% for the first 3 months and 2% for the next 3 months.

10. People's business credit (KUR) restructuring in the form of an extension of the KUR period, increasing the KUR ceiling limit, and / or postponing the fulfillment of administrative requirements in the restructuring process until the end of the COVID-19 emergency period.

11. Relaxation of Ultra Micro Financing (UMi) debtors in the form of: (1) postponement of principal obligations for debtors with financing contracts up to d. 4 June 2020; (2) provision of a grace period for payment of principal obligations for debtors with a contract period of 4 June 2020 until 30 November 2020; (3) the relaxation period from March to March. December 2020; (4) the maximum relaxation period is 6 months.

12. Relaxing the fulfillment of administrative requirements in the KUR application process in the form of a temporary delay in submitting administrative documents until the end of the COVID-19 emergency period.

13. Relaxation of administrative requirements and speed of UMi credit distribution.

14. Ease and expansion of UMi credit distribution.

15. Government guarantees for working capital credit for MSME through payment of payment for guarantee services, loss limits, and state capital participation to PT. Jamkrindo and PT. Askrindo. The guarantee portion is 80% of the credit.

Indonesia issued several policies to help the poor, which include:

1. The number of beneficiary families (KPM) of the Family Hope Program (PKH) was increased from 9.2 million to 10 million families.
2. The distribution of PKH, which was previously per 3 months, becomes monthly from April to December 2020. From April to June, KPM receives PKH twice (quarterly for the old index and monthly for the new index).
3. The amount of PKH benefits per year for: (1) pregnant women IDR 3,750,000; (2) Children aged 0-6 IDR 3,750,000; (3) Elementary school children / equivalent IDR 1,125,000; (4) Junior high school children / equivalent IDR 1,875,000; (5) High school children / equivalent IDR 2,500,000; (6) Severe disability IDR 3,000,000; (7) Seniors 70 years and over IDR 3,000,000. PKH assistance is given to a maximum of 4 people in 1 family. The highest assistance was IDR 10 million / year, the lowest assistance was IDR 900 thousand / year.
4. The number of Staple Food Card beneficiaries is increased from 15.2 million to 20 million KPM.
5. Basic food card nominal increases from IDR 150,000 to IDR 200,000 per KPM, given for nine months until December 2020.
6. Village Direct Cash Assistance (BLT) of IDR 600 thousand / KPM / month (April-June 2020) and IDR 300 thousand / KPM / month (July-September 2020). BLT Desa is given to poor or underprivileged families in the village who are not recipients of PKH assistance, basic food cards, and pre-work cards. Data collection for KPM candidates takes into account the Integrated Social Welfare Data (DTKS) of the Ministry of Social Affairs.
7. Non-Jabodetabek cash assistance for 9 million KPM outside Jabodetabek who do not receive PKH and basic food cards. The value of benefits is IDR 600 thousand / KPM / month (April-June 2020) and IDR 300 thousand / KPM / month (July-December 2020) in cash.
8. Jabodetabek Food and Drug Administration for 1.3 million KPM in Jakarta and 600 thousand KPM in Bodetabek who do not receive PKH and basic food cards. The value of benefits is IDR 600 thousand / KPM / month (April-June 2020) and IDR 300 thousand / KPM / month (July-December 2020) in the form of basic necessities.
9. Exemption of postpaid and prepaid electricity costs for 6 months (April-September 2020) for 24 million 450 VA electricity customers and 50% discount for 7.2 million 900 VA customers.
10. The Pre-Work Card budget is increased from IDR 10 trillion to IDR 20 trillion for 5.6 million workers who have been laid off or sent home with unpaid leave, informal workers, and micro and small business actors affected by COVID-19. Beneficiaries receive training fees of IDR 1 million, post-training incentives IDR 600 thousand / month for 4 months, and job survey incentives IDR 150 thousand for 3 surveys.

The positive development of the national economy in the second semester of 2020 was inseparable from the influence of the policy synergy pursued by the Government, Bank Indonesia, and related authorities. Policy synergy is aimed at minimizing the impact of restricting community mobility which creates pressure on the national economy. In this regard, fiscal policy stimulus is increased not only to address the needs related to health care due to Covid-19, but also to promote a depressed economic recovery. Monetary policy is directed at supporting economic recovery, while maintaining economic stability and ensuring adequate banking liquidity.

The government pursued an expansionary fiscal policy in order to overcome the impact of the pandemic both in terms of health and humanity, as well as in terms of its impact on the economy which fell sharply. At the start of the pandemic, the Government issued a stimulus for tax, non-fiscal and spending incentives, as well as social assistance and food security guarantees. In line with the widespread Covid-19 impact, the direction of the expansionary fiscal policies which was strengthened by Law no. 2 of 2020, provides the basis for the Government to widen the fiscal deficit above 3% of GDP until 2022. The government then issued Presidential Regulation No. 54 of 2020 as the basis for widening the 2020 state budget deficit to 5.07% of GDP with a focus on health spending and social safety nets.

In line with the deepening impact of the pandemic, the Government revised the Presidential Regulation again into Presidential Regulation No. 72 of 2020 with a deficit in the 2020 State Budget to 6.34% of GDP. The state expenditure target increased to IDR 2,739.2 trillion due to additional spending for the National Economic Recovery (PEN) program amounting to IDR 695.2 trillion. The PEN program includes Public Goods spending of IDR 397.56 trillion for health, social protection, Ministries / Institutions and Local Government, as well as IDR 297.64 trillion Non Public Goods for business incentives, MSME support and corporate financing. In semester II, the Government continued to expand and adjust PEN to make it more implementable, easy to execute, so as to effectively support economic recovery. Realization of state expenditure, which grew at a high rate amid contractionary revenues, resulted in a fiscal deficit reaching 6.09% of GDP.

5. Conclusion

Indonesia’s economic growth decreased by 5.32% in the second quarter 2020 to 2.97% in the first quarter of 2020 and (Bank Indonesia, 2020). In the fourth quarter of 2020, Indonesia's economy was 0.42% lower than in the previous quarter. According to a survey conducted by Statistics Indonesia (BPS) of MSMEs in various regions of Indonesia, 84% of micro and small enterprises, and 82% of medium-and large enterprises had decreased revenues due to the Covid-19 pandemic. During 2020, the number of foreign tourist visits to Indonesia amounted to 4.02 million, or 75.03 percent less, compared to 16.11 million in 2019, the number of foreign visitors. The Covid-19 pandemic caused a 5.23% increase of 7.07% in the open unemployment rate. The percentage of poor people was 10.19 percent in September 2020, up from March 2020 from 0.41 percentage point and up from September 2019 by 0.97 percentage points. In order to overcome the effect both on health and humanity of this pandemic and its sharply falling economic impact, the Government pursued an expansionary fiscal policy.

Indonesia should consider the following policy recommendations to restore trust and revive the economy, as recommended by ASEAN: i) to maintain supply chains; ii) to maintain the productive capacity of the economy; iii) to mobilize all the instruments of financial, macro and structural policies available; iv) to reinforce social security networks; v) to leverage digital commerce; vi) to increase regional pandemic reactions and vi) to reinforce determination to promote regional integration.

Reference

1. Achou, B., Boisclair, D., Astous, P., Fonseca, R., Glenzer, F., and Michaud, P.C. (2020). Early Impact of the COVID-19 pandemic on household finances in Quebec. Canadian Public Policy, 46(3), S217–S235.
2. Aduhene, D.T., Assibey, E.O. (2021). Socio-economic impact of COVID-19 on Ghana's economy: challenges and prospects. International Journal of Social Economics. ISSN: 0306-8293
3. Aneja, R. and Ahuja, V. (2020). An assessment of socioeconomic impact of COVID-19 pandemic in India. Journal of Public Affairs. e2266
4. Aji, R. R., Pramono, R. W. D., dan Rahmi, D. H. (2018). Kontribusi Sektor Pariwisata Terhadap Ekonomi Wilayah Di Provinsi Jawa Timur. Jurnal Planoearth, 3(2), 57. https://doi.org/10.31764/jpe.v3i2.600
5. ASEAN Secretariat (2020). ASEAN Rapid Assessment: The Impact of COVID-19 on Livelihoods across ASEAN. ASEAN Secretariat, Jakarta. https://asean.org/storage/ASEAN-Rapid-Assessment_Final-23112020.pdf
6. Adell Carrasco, F. L., Castillo Fernández, I., & Álvarez Solves, O. (2019). Personal and Sport Values, Goal Orientations, and Moral Attitudes in Youth Basketball. Revista de psicología del deporte, 28(3), 0100-105.
7. Association of Southeast Asian Nations (2020), Economic Impact of COVID-19 Outbreak on ASEAN
8. https://asean.org/storage/2020/04/ASEAN-Policy-Brief-April-2020_FINAL.pdf
9. Asian Development Bank (2020, June 18), Developing Asia to Grow Just 0.1% in 2020, https://www.adb.org/news/developing-asia-grow-just-0-1-2020-adb#:~:text=In%20a%2 regular%20supplement%20to, for%20the%20region%20since%201961.

10. Bank Indonesia. (2020). Laporan Perekonomian Indonesia 2020
11. https://www.bi.go.id/id/publikasi/laporan/Pages/LPI_2020.aspx
12. BPS. (2020a).Agustus 2020: Tingkat Pengangguran Terbuka (TPT) sebesar 7,07 persen
13. https://www.bps.go.id/pressrelease/2020/11/05/1673/agustus-2020--tingkat-pengangguran-terbuka--tpt--sebesar-7-07-persen.html
14. BPS. (2020b). Jumlah kunjungan wisman ke Indonesia bulan Desember 2020 mencapai 164,09 ribu kunjungan.
15. https://www.bps.go.id/pressrelease/2021/02/01/1796/jumlah-kunjungan-wisman-ke-indonesia-bulan-desember-2020-mencapai-164-09-ribu-kunjungan-.html
16. BPS. (2020c). Ekonomi Indonesia 2020 Turun sebesar 2,07 Persen
17. https://www.bps.go.id/pressrelease/2021/02/05/1811/ekonomi-indonesia-2020-turun-sebesar-2-07-persen--c-to-c-.html#:~:text=Perekonomian%20Indonesia%202020%
18. 20yang%20diukur,%2Dc)%20dibandingkan%20tahun%202019.
19. Catherine, S., Miller, M., & Sarin, N. (2020). Relaxing household liquidity constraints through social security. Journal of Public Economics, 189.
20. Chaudhary, M. Sodani, P. R. and Das, S. (2020). Effect of COVID-19 on Economy in India: Some Reflections for Policy and Programme. Journal of Governance Volume 5, Issue 1, June 2020 (61-70)
21. Kartiko, N. D., dan Pajak, D. J. (2020). Insentif Pajak Dalam Merespons Dampak Pandemi Covid-19 Pada Sektor Pariwisata. Jurnal Pajak Dan Keuangan Negara, 2, 124.
22. Kimura, F., Thangavelu, S..M., Narjoko, D., and Findlay, C. (2020). Pandemic (COVID-19) Policy, Regional Cooperation and the Emerging Global Production. Asian Economic Journal 2020, Vol. 34 No. 1, 3–27
23. ILO, 2020, ILO Monitor 2nd Edition: COVID-19 and the World of Work, Updated Estimated and Analysis, Briefing Note, 7 April. Geneva: International Labour Organization.
24. https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/
25. documents/ briefingnote/wcms_740877.pdf.
26. McKibben, W., & Fernando, R. (2020). Centre for Applied Macroeconomic Analysis The Global Macroeconomic Impacts of COVID-19: Seven Scenarios. Centre for Applied Macroeconomic Analysis.
27. Ministry of Finance
28. https://www.kemenkeu.go.id/covid19
29. Nugroho, A.E. (2020). Survei Dampak Pandemi COVID-19 terhadap Ekonomi Rumah Tangga Indonesia.
30. http://lipi.go.id/siaranpress/survei-dampak-pandemi-covid-19-terhadap-ekonomi-rumah-tangga-indonesia/22123
31. OECD (2020). Coronavirus (COVID-19): SME policy responses.
32. http://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/
33. Ozili, P. (2020). COVID-19 in Africa: socio-economic impact, policy response and opportunities. International Journal of Sociology and Social Policy. ISSN: 0144-333X
34. Sanaubar, G., Hidayat, W., & Kusuma, H. (2017). Pengaruh Potensi Pariwisata Terhadap Penyerapan Tenaga Kerja Sektor Perhotelan Di 9 Kabupaten/Kota Provinsi Jawa Timur Tahun 2012-2015. Jurnal Ilmu Ekonomi, 1(3), 324–339.
35. Timorria, I.M. (2020). Survei BPS : Covid-19 Tekan Semua Sektor Usaha
36. https://ekonomi.bisnis.com/read/20200915/12/1291857/survei-bps-covid-19-tekan-semua-sektor-usaha
37. United Nation. (2020). Policy Brief: The Impact of COVID-19 on South-East Asia
38. https://www.unescap.org/sites/default/d8files/2020-07/SG-Policy-brief-COVID-19-and-South-East-Asia-30-July-2020.pdf
39. Utami, B. S.A., Kafabih, A.(2021). Sektor Pariwisata Indonesia di Tengah Pandemi Covid-19. Jurnal Dinamika Ekonomi Pembangunan (JDEP) Vol. 4 No. 1
40. WFP. (2020). COVID-19 Economic and Food Security Implications for Indonesia - 3rd edition August 2020
41. https://www.wfp.org/publications/covid-19-economic-and-food-security-implications-indonesia-3rd-edition-august-2020
42. World Bank, 2020, World Bank East Asia and Pacific Economic Update, April 2020: East Asia and the Pacific in the time of COVID-19. Washington, DC: World Bank. Available at https://www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update.