

## ***ANALYSIS OF MONETARY POLICY ON ECONOMIC GROWTH IN INDONESIA DURING THE OUTBREAK OF COVID-19***

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### **ABSTRACT**

Monetary policy is a policy of Bank Indonesia aimed at managing a country's money supply in order to achieve certain objectives such as maintaining monetary stability and increasing employment opportunities.

The analysis of monetary policy in Indonesia aims to discover and anticipate the impact of the Covid-19 pandemic on the Indonesian economy. Research uses descriptive qualitative research methods that include different concepts in the research process using content analysis techniques as well as literature search. The results of this study show the monetary policy efforts of the Indonesian government to stabilize the economic system, supported by Bank Indonesia through the role of the Financial Services Authority in Indonesia.

At that time, the Indonesian government tried to implement this policy to relieve the Indonesian nation of the economic crisis due to Pademi Covid 19, which has an even greater impact.

**Keywords :** Monetary Policy, Inflation, Money Supply, Interest Rates, Exchange Rates, GDP (Gross Domestic Product), Economic Growth

### **INTRODUCTION**

incidents. The rest are spread across the continents of Asia, Europe, America, Australia and the United Arab Emirates. So that this virus has spread in 28 countries. On March 2, 2020, Indonesia first confirmed that there were two positive Covid-19 patients (Pranita: 2020). There were recorded economic losses from the virus that attacked mainland China, which is projected to record a loss of US\$ 62 billion. The Chinese economy has weakened due to the spread of the corona virus. In fact, the global GDP

(gross domestic product) so far has been contributed by China as much as 17%, which automatically results in economic disturbances that are also felt by other countries. The most affected is Hong Kong, it is estimated that there will be a decline from 1.74% economic growth. Then South Korea (0.41%), Australia (0.29%), Brazil (0.32%), Indonesia (0.26%) in 2020. The impact of Covid-19 will weaken the Indonesian economy, thereby increasing the number of poor people. If the economy only grows by 1%, resulting in a poverty rate of 12.4 in Indonesia, an increase compared to

2019 of 9.2%, so to help the poor, a new social protection program is needed. (Suryahadi, 2020)

## LITERATURE REVIEW

### *Monetary policy*

Monetary policy is the management of money as well as interest rates that affect important economic variables for economic prosperity and are instruments in achieving policy targets. This process is defined as an economic reaction to changes in monetary policy, beginning with changes in policy instruments and ending with economic adjustments to monetary policy. (Cargill, 1991)

Nanga (2005: 180) says that the monetary policy is carried out by the government by controlling interest rates and the money supply. This policy will affect the development of money supply, credit interest rates, interest rates, exchange rates which are monetary variables in order to achieve the target, namely the provision of employment, economic growth and balance of payments balance (Natsir, 2011). The central bank is the monetary authority that will regulate the balance between the supply of goods and the supply of money. This is done so that inflation can be controlled, full employment opportunities are achieved and smooth supply/distribution of goods (Boediono, 1991:96). Monetary policy is expansionary and contractionary. contractionary monetary policy (tight money policy) in limiting the amount of money in circulation is carried out when the economy experiences inflation.

Meanwhile, the expansionary monetary policy (easy money policy) is carried out by increasing the amount of money in circulation to increase people's purchasing power (public demand) when the economy is experiencing a recession or depression.

Monetary policy in interest rates by setting the ideal interest rate to encourage investment activities. If the interest rate has

If it experiences a high increase that exceeds a predetermined number, the central bank will lower the interest rate to the set level. Monetary policy is used through the amount of money in circulation is a medium target that has a positive impact in the form of stable prices.

### *Inflation*

Inflation is an increase in overall prices resulting in a decrease in purchasing power. Inflation is an increase in general prices that apply in periods of an economy (Sukirno, 2010). Prasetyo (2009:198) said that inflation can be seen from various levels based on whether it is severe or not, namely mild inflation (100% per year). Based on the causes, according to Madura (2007: 128), inflation can be classified into four, namely demand pull inflation, cost push inflation, mixed inflation, and expected inflation. ).

The cause of inflation is the growth in aggregate demand that is faster than the growth in aggregate supply resulting in an increase in the price of goods and services. The total imbalance between supply and demand is related to government deficits, rising

bank interest rates, and increasing foreign demand (Haberler, 1960)

### ***Money Supply***

The price level and interest rate are important roles of the money supply consisting of public currency and demand deposits.

In essence, the money supply is all funds issued by the central bank and commercial banks (Aslam, 2016).

### ***Interest Rate***

Fisher (1930) The interest rate is a bridge or link between income and capital. Interest rate adjustment is the main and consistent instrument in monetary policy with the central bank. The interest rate is an economic variable that is monitored because it has a universal effect which directly affects people's daily lives which has a major impact on economic conditions.

### ***Exchange Rate***

The exchange rate is the price of the currency of a country expressed in other currencies which determines the relative prices for foreign and domestic goods as well as the strength of the external sector in participating in the international trade arena (Adeniran et al, 2014).

Krugman and Obstfeld (1994:73) state that the exchange rate is the price of a currency against the value of other currencies. The exchange rate plays an important role in international trade, because it allows comparing the prices of goods and services from a country. The exchange rate aims to increase the price of export products and reduce the price of imports which is measured based on the local currency exchange rate (Todaro, 2000: 247). The exchange

rate is divided into two, namely the real exchange rate and the nominal exchange rate. The nominal exchange rate is the price of currency from one country to another, the real exchange rate is the nominal exchange rate divided by the relative prices of foreign and domestic (Mankiw, 2006: 128). The real exchange rate is used as a benchmark to measure a country's competitiveness with other countries. Exchange rates play an important role in international trade, because of their role in comparing the prices of goods and services in various countries.

### ***Economic Growth in Indonesia***

Economic growth is an economic development based on the increase in goods and services that will be produced to increase people's prosperity (Sukirno, 2010). Economic development is measured by economic growth and the ability of a country to produce goods and services from one period to another. The increase in the factors of production, both in quantity and quality, leads to an increase in capacity. Arsyad (1999) stated that economic growth as an indicator can be seen from the increase in Gross Domestic Product (GDP). Economic growth is one of the many conditions needed in a development process (Meier, 1989). Economic growth can be measured by the growth of Gross Domestic Product (GDP) according to constant prices by recording an increase in the production of goods and services. The GDP growth rate will provide an overview of the process of increasing output per capita in the long term which emphasizes processes that contain dynamic, change or

development elements. Therefore, an understanding of the indicators of economic growth can usually be seen within a certain period of time, for example quarterly.

### ***Gross Domestic Product***

Gross Domestic Product is a price index in measuring the price level of a number of goods that will be produced in an economy that is used by households, companies, governments, and abroad (Sukirno, 2010). GDP is the value of a country's goods or services produced with production factors belonging to citizens and foreign countries (Sukirno, 2010).

GDP is calculated in two ways, namely at the current base price and at constant prices. GDP at current prices is an illustration of the added value of goods and services calculated using prices in the year concerned. GDP at constant prices describes the added value of goods and services based on prices in a certain year or base year (BPS, 2001). According to Mankiw (2000), the criteria for calculating GDP are divided into real GDP and nominal GDP. Real GDP measures the change in physical output in the economy between different periods by valuing the amount of all goods produced in that period at the same price, or at constant prices. While nominal GDP is a measure of the value of output in a period using prices in that period, or current prices.

### **METHOD**

The methodology as presented by Bogdan and Taylor is a process, principle, and procedure by which to observe problems to find solutions. The theoretical perspective of the study

influences the methodology, which is a framework of thought or interpretation of the author in understanding the data and its relationship to other events. While qualitative is the collection of data obtained without using certain measuring instruments and is natural, namely as it is and not engineered. (Nasution, 2003: 18). Bog and Taylor (Moleong, 2010: 3) stated that qualitative is a research procedure from the actors who are observed to produce words both oral and written so that it is concluded that qualitative research is qualitative research data which is collected because it does not use certain measuring instruments, the field situation is "natural" or reasonable, in order to obtain descriptive research results.

The study was conducted using the content analysis method, which is to obtain an explanation from the text in the form of symbols used for communication using print or electronic mass media. The literature review method is a theory according to the problem being researched in the form of a study of the concepts used with existing references, in scientific articles. The literature review summarizes the concepts that will be used as the basis for thinking in a research. (V. Wiratna Sujarweni, 2014).

### **RESULTS AND DISCUSSION**

During the Covid-19 pandemic, it was an epidemic that had spread to all countries in the world. And every country must have quick steps to contain its rapid spread, it is feared that it will have an impact on all aspects of life, both in the declining health sector,

all of which have resulted in the deterioration of both social and economic conditions.

### **Health Impact of Covid-19**

Covid-19 is a fast-spreading virus, although not always deadly like the H2N1 virus and dengue fever, but it is dangerous for elderly patients and patients with a history of congenital diseases such as heart disease, asthma and diabetes as well as patients with a history of other acute respiratory disorders.

As of early January 2021, the number of confirmed cases of Covid-19 worldwide was 84,474 million and the number of cases died was 1,849 million, according to a WHO report. The most infected countries worldwide are the United States, India, Brazil, Russia and Britain, France and Italy.

Tabel 1. Persebaran Kasus Covid-19 di dunia

Name	Cases - cumulative total	Cases newly reported in last 24 hours	Deaths - cumulative total	Deaths newly reported in last hours
Global	84,474,195	841,811	1,848,704	8,696
United States o...	20,470,169	211,444	348,962	1,407
India	10,356,844	16,375	149,850	201
Brazil	7,733,746	17,341	196,018	293
Russian Feder...	3,284,384	24,246	59,506	518
The United Kin...	2,713,567	58,784	75,431	407
France	2,615,165	3,569	65,035	376
Italy	2,166,244	10,796	75,680	346

Sumber : WHO Coronavirus Disease (COVID-19) Dashboard

In the case that occurred in Indonesia, it was in the top 20 of the world's total positive cases of Covid 19 with a total case of 780 thousand people. With the most cases of covid 19 occurred in Java, namely DKI Jakarta, East Java, Central Java and West Java. (Arnani, Mela. 2020).

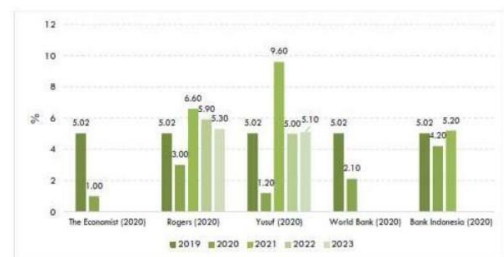
### **Social Impact of Covid-19**

The effort to break the chain in the spread of Covid-19 is to maintain

social distance. According to the Centers for Disease Control and Prevention (CDC) in the US, social distancing is a way of avoiding gatherings and gatherings and maintaining a social distance of 2 meters. Policies include how to work, study and worship from home. Social distancing greatly affects the social life of the Indonesian people who are famous for their brotherhood. Since the outbreak of the Covid-19 virus, family events can no longer be carried out.

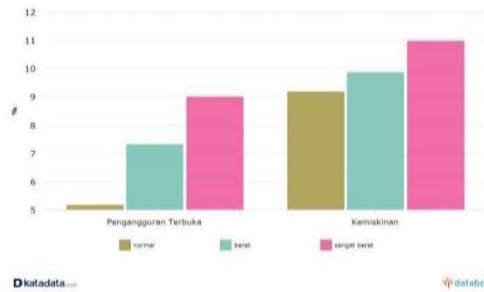
### **Economic Impact of Covid-19**

The impact of the outbreak of Covid 19 is the biggest impact on the economic sector. It can be seen from the development of the Indonesian economy that it grew only -0.4 - 2.3% in 2020. However, in 2021, the government is optimistic that the Indonesian economy is expected to increase by 4.5 - 5.5%. World financial institutions have provided several projections of Indonesia's economic growth in 2020 to 2023. (Suryahadi, 2020:11) Various studies estimate that COVID-19 will reduce Indonesia's economic growth rate to between 1 and 4 percent.

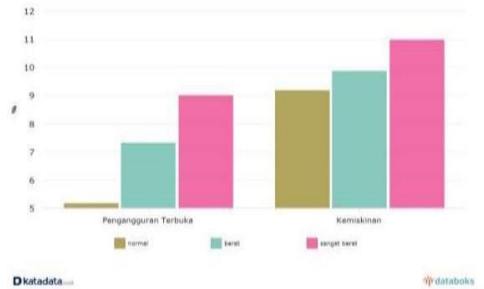


Gambar. 1. Proyeksi pertumbuhan ekonomi Indonesia pada 2020-2023  
Sumber. Suryahadi, et al (2020)





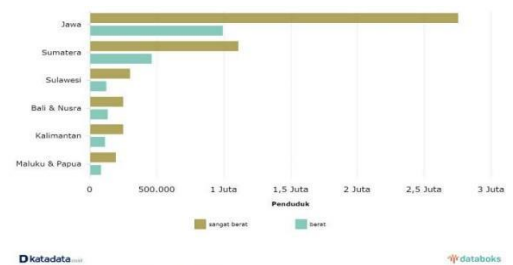
The Ministry of Finance through the Fiscal Policy Agency (BKF) projects that the growth rate of unemployment and the poor will increase during the Covid-19 virus outbreak. The three increase projections prepared by Febrio Nathan Kacaribu, as the head of BKF, are the basic (normal), heavy and very heavy calculations. namely the estimated base rate, projected open unemployment (TPT) of 5.18%, up to 9.02% and poverty at 9.18% to 10.98% on a very heavy calculation.



Picture 2. Projection of Unemployment and Poverty in Indonesia 2020 Source: katadata.co.id BKF

The Ministry of Finance has also made various projections of an increase in the poverty rate in 2020 due to the Covid-19 pandemic. Whereas the poverty rate in Java is increasing very rapidly, it is estimated that the number of poor people in Java will increase to 2.75 million people, while in Sumatra it

will be 1.11 million, and in Sulawesi it will increase to 300 thousand people. Meanwhile, Bali, Nusa Tenggara and Kalimantan are around 250 thousand people. In Maluku and Papua, it is predicted that 190 thousand poor people will increase.



Gambar 3. Peningkatan Penduduk Miskin Akibat Covid-19 Sumber : katadata.co.id

In addition, COVID-19 also has an impact on changes in the average household expenditure per capita in 2019 and 2020, which is estimated to decrease from -1.17 to -2.88 percent if growth in 2020 is projected at 4.2 and 3 percent, respectively. However, the decline was much higher at -4.16, -5.44, and -5.72 percent when growth in 2020 is projected to be much slower at 2.1, 1.2 and 1 percent, respectively. Suryahadi, et all (2020: 8)

Table 2. Estimated results of average household income per capita expenditure in 2020

Growth 2019	Growth 2020 (Scenario)	Change 2019-2020	Coefficient of correlation	Change in Average PCE
5.02%	4.20%	-0.82%	1.424	-1.17%
5.02%	3.00%	-2.02%	1.424	-2.88%
5.02%	2.10%	-2.92%	1.424	-4.16%
5.02%	1.20%	-3.82%	1.424	-5.44%
5.02%	1.00%	-4.02%	1.424	-5.72%

Sumber : Suryahadi, et all (2020)

According to Herlambang, three regulations have been issued by the government on the <https://www.ayosemarang.com> site to fight the economic and social impacts of the Covid-19 pandemic, namely

Perppu No. 1 of 2020 regarding financial policies, PP No. 21 of 2020 and Presidential Decree No. 11 of 2020 concerning regulations for Large-Scale Restrictions and health emergencies during the Covid-19 pandemic.

Economists are wary of the government's lockdown policy increasing unemployment, because people do not leave their homes to carry out production and distribution activities. (Partington & Wearden, 2020).

The lessons we learned from the Chinese government were successful and quick to take direct action in handling Covid-19, namely, as a leading policy maker, the government should not be hampered by a lack of funds. Because it is necessary to provide units for intensive care and hospital capacity also needs to be expanded as well as the construction of temporary hospitals; as well as the provision of tools— Medical devices such as respirators and masks are mass-produced which are available to people in need. The urgent thing that must be done during the Covid-19 pandemic is to maintain and improve the quality of cleanliness in the environment.

### *Implementation of Indonesia's Monetary Policy*

In Law no. 23 of 1999 concerning Bank Indonesia (BI), namely regarding the function of BI in maintaining monetary stability as well as maintaining financial stability and these two things are closely related and support efforts to stabilize the value of the rupiah. (Sabirin, 2020) Bank Indonesia as the institution that determines the country's monetary

policy, is stated in PERPU No. 1 of 2020, namely by giving authority to Bank Indonesia to also provide short-term liquidity loans to both systemic and non-systemic banks. Provide access to the distribution of funds to the private sector through repo government debt through banks. Accept special liquidity loan applications if a systemic bank has previously received short-term liquidity loans but is still experiencing liquidity difficulties to BI. In addition to the BI policy above, the Government will also regulate a guarantee program in addition to the deposit guarantee program by issuing government regulations to prevent a deeper financial system crisis. The Financial Services Authority (OJK) on its official website, stated that OJK has responded to the current condition of the Indonesian economy, namely the issuance of OJK Regulation No. 11/PJOK. 03/2020, regarding the stimulus to the national economy as a counter cyclical policy from the impact of the spread of Covid-19. This policy applies to all conventional and Islamic financial institutions and is valid until March 31, 2021. OJK policy: supports the implementation of policies by banks that can stimulate the economic growth of debtors and MSMEs affected by the spread of COVID-19 and who have difficulty fulfilling obligations to banks, policies include: assessing credit quality improves financing quality and regulates asset quality assessment. Other new lending by the Bank to debtors with special treatment in accordance with POJK. As well as conducting periodic reports by the Bank since the end of April 2020. OJK also gives orders to financial service

institutions to be able to carry out mergers, consolidations or conversions, exemption from the obligation of some financial institutions to make disclosures in the capital market, stipulations on provisions for information technology and lastly on sanctions. given to people who intentionally ignore or hinder the authority of the OJK with a minimum sentence of 4 to 12 years in prison and a fine of Rp. 10 to 300 billion. And for companies that commit violations, they are punished with a minimum fine of 1 trillion.

### ***Analysis of Monetary Policy***

This study concludes that the low level of investor sentiment towards the market which can eventually lead the market in a direction that tends to be negative is the impact that occurs due to the COVID-19 pandemic which has an impact on economic fluctuations with negative movements. Several strategic steps in the monetary sector are urgently needed and are expected to provide a stimulus to the economy. The global and significant economic slowdown occurred in the Indonesian economy, mainly due to the decline in Indonesia's exports to China. A sensitivity analysis was conducted to explain the global economic slowdown that has an impact on Indonesia's current economic growth. (Nasution, et al (2020: 212).

And Modjo (2020:103) stated that the policy of continuing to carry out restrictions has an impact on the economic suffering that is protracted, which cannot be handled even though various incentives and stimulus have

been carried out by the government. In addition, if not implementing social restrictions, it will worsen the impact on public health and increase the number of victims due to the Covid-19 virus. During the new normal phase in Indonesia, various government institutions, in this case Bappenas, have prepared a protocol regulation

Safe health for the community in socio-economic activities during the Pandemic, according to WHO criteria. The preparation of the appropriate scale of handling is needed to reflect the needs and support for small communities most affected by Covid-19, in carrying out direct handling and socio-economic intervention, it is necessary to strengthen the database. The roadmap that has been prepared has absolutely taken into account regional aspects. Paying more attention to regional peculiarities due to the heterogeneity of the effects caused by the Covid-19 outbreak, considering that every region in Indonesia has a comparative advantage.

In the SMERU Research Institute Research (2020:11), Indonesia is expected to prepare a social protection program that helps the new poor and the existing poor. Due to the large amount of resources needed to overcome this problem, to ensure the effectiveness of the social protection program, Indonesia has carried out learning lessons from handling with other regions as well as experiences with similar programs in the previous crisis.

### **CONCLUSION**

In an effort to overcome the



impact of the Covid-19 pandemic, the Government needs to implement various monetary policies, namely regarding state revenues and expenditures in order to maintain economic stability and growth. The government must pay more attention to the realization of the use of funds for handling Covid-19 so that it is right on target with the priority of preventing the Covid-19 pandemic. Setting priorities for the right treatment is a reflection of the needs and taking sides with the affected small communities, as well as by strengthening the database in dealing with and those who are directly involved in the socio-economic sector, also by paying more attention to the comparative advantages that exist in regions in Indonesia, with heterogeneity of impacts. that occurred as a result of the Covid-19 pandemic. As well as the experience of the Indonesian people in experiencing the past economic crisis, so that it is easier for the Indonesian people to take economic policy steps from other countries.

Various government policies were taken to restore economic stability, resulting in the development of the rupiah exchange rate strengthening and showing stability in recent years. Some of these progress can not be separated from the implementation of monetary policy supported by the there are improvements on the micro side and improvements in banks in lending to the real sector which are directly affected by the Covid-19 pandemic, although growth has not been as expected.

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