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The Government's Role in Maintaining Macroeconomic Stability Amidst the Global Crisis

Iqbal Afra[1], Darwati Susilastuti[2]
[1]Universitas Borobudur, Indonesia, iqbalafra88@gmail.com
[2]Universitas Borobudur, Indonesia, darwatisusi@borobudur.ac.id

Corresponding Author: iqbalafra88@gmail.com[1]

Abstract: This research examines the government's role in maintaining macroeconomic stability amid global crises, focusing on fiscal and monetary policies implemented during 2020-2024. Global crises triggered by COVID-19 pandemic and geopolitical tensions caused significant shocks to Indonesian economy, reflected in economic growth decline to minus 2.07 percent in 2020. Research method employs descriptive qualitative approach with secondary data analysis from government official publications and international institutions. Results indicate that government intervention through National Economic Recovery program with budget allocation of IDR 699.43 trillion successfully restored economic growth to 3.69 percent in 2021 and reached 5.31 percent in 2023. Bank Indonesia's monetary policy maintaining inflation rate within 2-4 percent range and expansive fiscal policy proved effective in mitigating crisis impacts. Coordination between fiscal and monetary authorities became key success factor for Indonesian macroeconomic stabilization amid global uncertainty.

Keyword: macroeconomic stability, fiscal policy, monetary policy, global crisis, economic recovery

INTRODUCTION

Macroeconomic stability is a fundamental condition that every country must maintain to ensure public welfare and sustainable economic growth. In an era of increasingly integrated globalization, a country's economy cannot be separated from the dynamics of the global economy, which often presents various external shocks. The global crises that have occurred over the past two decades, from the Asian financial crisis of 1997-1998, the subprime mortgage crisis of 2008-2009, to the multidimensional crisis caused by the COVID-19 pandemic of 2020-2022, have proven that no country is completely immune to the impacts of international crises.

Indonesia, as a developing country with an open economy, faces various risks stemming from global economic volatility. According to data from the Central Statistics Agency (BPS), the Indonesian economy contracted by 2.07 percent in 2020, the first negative growth since the 1998 monetary crisis. The drastic decline was triggered by the COVID-19 pandemic, which disrupted global supply chains, reduced export demand, and restricted domestic economic activity. Indonesia's export value in the second quarter of 2020 fell by 8.37 percent compared to the same period the previous year, while imports plummeted by 16.96 percent, reflecting weakening economic activity.

Global geopolitical tensions, particularly the Russia-Ukraine conflict that began in February 2022, further exacerbated the global economic situation. This conflict led to a surge in energy and food commodity prices on the international market. Global crude oil prices reached US$120 per barrel in mid-2022, nearly doubling the previous year's price. This surge in commodity prices exerted significant inflationary pressure on various countries, including Indonesia, which recorded annual inflation of 5.51 percent in September 2022, exceeding the upper limit of Bank Indonesia's inflation target.

In the face of these external shocks, the government's role is crucial in maintaining macroeconomic stability. Keynesian economic theory, proposed by John Maynard Keynes in 1936, emphasized the importance of government intervention through fiscal policy to address market failures and stabilize the business cycle. Keynes argued that in a recession or crisis, the government should undertake fiscal expansion by increasing government spending and reducing taxes to stimulate aggregate demand. This view differs from classical economic theory, which places greater reliance on market mechanisms to achieve economic equilibrium.

The Indonesian government has implemented various policies to maintain macroeconomic stability during the global crisis. The National Economic Recovery Program, launched in 2020, allocated a budget of IDR 699.43 trillion for various economic stimuli, including social protection, business incentives, and corporate financing. This program is a form of expansionary fiscal policy aimed at supporting public purchasing power and maintaining business continuity amidst the economic contraction. Furthermore, Bank Indonesia, as the monetary authority, also lowered its benchmark interest rate from 5 percent in early 2020 to 3.5 percent by the end of the year to encourage banking intermediation and maintain economic liquidity.

Coordination between fiscal and monetary policies is a key element in maintaining macroeconomic stability. An appropriate policy mix between these two instruments can produce a more optimal synergistic effect in overcoming crises. Research conducted by Blanchard and Leigh in 2013 showed that fiscal policy is more effective in stimulating the economy when supported by accommodative monetary policy, particularly in conditions of near-zero interest rates. This finding is relevant to Indonesia's situation during the pandemic, when interest rates were lowered to historically low levels to optimize the impact of fiscal stimulus.

However, the implementation of macroeconomic stabilization policies is not without various obstacles and policy dilemmas. Large fiscal exp a severe crisis in 1997-1998, successfully achieved rapid economic recovery through radical structural reforms, including restructuring the corporate and banking sectors. Meanwhile, ansion can lead to an increase in the budget deficit and the ratio of government debt to Gross Domestic Product. Ministry of Finance data shows that Indonesia's budget deficit widened to 6.09 percent of GDP in 2020, exceeding the 3 percent deficit limit stipulated in the State Finance Law. Although the government has obtained approval from the House of Representatives to exceed this deficit limit in an emergency, this policy raises questions about long-term fiscal sustainability. On the monetary side, long-term low-interest rate policies can pose risks to financial system stability through excessive yield-seeking and the formation of asset bubbles. The Bank for International Settlements warned in its 2021 annual report that prolonged periods of low interest rates in various countries have encouraged excessive debt accumulation and overvaluation of assets. This creates financial vulnerabilities that could trigger future crises if monetary policy normalization occurs abruptly.

In addition to macroeconomic policies, the government also needs to pay attention to the structural aspects of the economy to increase resilience to external shocks. Economic diversification, increasing competitiveness, and strengthening economic fundamentals are equally relevant long-term strategies. World Economic Forum data shows that Indonesia's competitiveness index ranked 40th out of 141 countries in 2019, still lagging behind several Southeast Asian countries such as Singapore, Malaysia, and Thailand. Increasing competitiveness requires improvements in infrastructure, ease of doing business, and adequate human resource quality.

The experiences of various countries in overcoming the global crisis also provide valuable lessons for Indonesia. South Korea, which experiencedSouthern European countries such as Greece, Spain, and Italy faced prolonged difficulties following the 2008 global financial crisis due to limited fiscal space and structural rigidities in their economies. This comparison demonstrates that appropriate and timely policy responses are crucial for the speed and quality of economic recovery.

The increasingly uncertain global geoeconomic environment demands that the government adopt an adaptive and responsive policy framework. The trade war between the United States and China, which began in 2018, has changed the global trade landscape and driven a reorientation of international supply chains. Indonesia has an opportunity to capitalize on the relocation of investment from China by improving the investment climate and providing attractive incentives for foreign investors. Data from the Investment Coordinating Board shows that realized foreign direct investment in Indonesia reached US$34.9 billion in 2022, a 44.2 percent increase compared to the previous year.

The digital transformation accelerated by the COVID-19 pandemic has both opened opportunities and posed new risks to economic stability. Indonesia's digital economy grew 40 percent annually from 2020 to 2022, making it the largest digital economy in Southeast Asia, with transaction value reaching US$77 billion in 2022, according to the e-Conomy SEA report. The government needs to strike a balance between encouraging digital innovation and maintaining financial system stability, and protecting consumers from the risks associated with financial technology.

Climate change and the transition to a low-carbon economy are also increasingly relevant factors in macroeconomic policy. Indonesia, the world's fifth-largest greenhouse gas emitter, faces international pressure to reduce emissions while maintaining economic growth. The government has committed to achieving net-zero emissions by 2060 and reducing emissions by 29 percent on its own or 41 percent with international support by 2030. This transition requires significant investment in renewable energy, green infrastructure, and industrial sector transformation, which can impact fiscal and monetary dynamics.

This research aims to analyze in depth how the Indonesian government has played its role in maintaining macroeconomic stability amidst the various global crises that occurred in the 2020-2024 period. The analysis will focus on the fiscal and monetary policies implemented, their effectiveness in achieving macroeconomic targets, and the various obstacles and dilemmas encountered in their implementation. The results of this research are expected to provide input for the formulation of better macroeconomic policies in the future, particularly in anticipating and responding to various potential external shocks.

Library Review

Macroeconomic stability refers to a condition in which key economic variables such as economic growth, inflation, unemployment, and the balance of payments are balanced and controlled. According to Mankiw (2019), macroeconomic stability is achieved when the economy operates at its potential output level with a low and stable inflation rate, minimal unemployment, and a healthy balance of payments. The condition allows economic actors to make investment and consumption decisions with a higher degree of certainty, thereby promoting long-term economic growth.

Modern macroeconomic theory provides a theoretical foundation for the government's role in maintaining economic stability. Keynesian theory, put forward by John Maynard Keynes in his 1936 book, The General Theory of Employment, Interest, and Money, emphasized that the economy does not always reach a state of full-employment equilibrium due to price and wage rigidities. Keynes argued that in recessions or depressions, the government must actively intervene by increasing government spending to stimulate aggregate demand and return the economy to full employment. This view changed the economic paradigm previously dominated by classical theory, which believed in the self-correcting ability of markets.

Subsequent developments in macroeconomic theory resulted in a neoclassical synthesis that combined elements of Keynesian theory with classical theory. Hicks (1937) introduced the IS-LM model, which explains the interaction between goods markets and money markets in determining income levels and interest rates. This model demonstrates that fiscal and monetary policy can be used simultaneously to achieve macroeconomic targets. Fiscal policy operates through shifts in the IS curve, while monetary policy operates through shifts in the LM curve. The effectiveness of each policy depends on the elasticity of money demand to interest rates and the elasticity of investment to interest rates.

Friedman (1968) criticized the Keynesian view through monetarism, which emphasizes the role of the money supply in determining short-term price levels and output. Friedman argued that inflation is primarily a monetary phenomenon caused by excessive growth in the money supply. According to the monetarist view, expansionary fiscal policy financed through money printing will cause inflation without generating long-term increases in real output. Therefore, monetarists recommend that central banks focus on controlling the money supply with stable growth in line with potential output growth.

Lucas (1972) introduced the rational expectations revolution, which transformed how economists understand the impact of economic policy. Rational expectations theory states that economic actors form their expectations based on all available information and an understanding of the structure of the economy. This theory implies that economic policies that economic actors can anticipate will have no real effect on output and unemployment, even in the short run. Policies are only effective if they contain an element of surprise that economic actors did not anticipate. This view sparked debate about the effectiveness of economic stabilization policies and led to the development of the concept of policy credibility. The real business cycle theory, developed by Kydland and Prescott (1982), offers a different perspective on economic fluctuations. This theory argues that business cycles represent the economy's optimal response to real productivity shocks, not the result of market failures or the inherent instability of the capitalist system. According to this view, fluctuations in output and unemployment reflect changes in potential output, making stabilization policies unnecessary and even detrimental if they disrupt the optimal allocation of resources. However, this theory has been criticized for its inability to explain the large and persistent fluctuations in unemployment that occur in reality.

New Keynesian economics, which has developed since the 1980s, has attempted to provide a stronger microfoundation for Keynesian theory by incorporating the assumptions of rational expectations and general equilibrium. Mankiw and Romer (1991) showed that price and wage stickiness can result from optimal firm and worker behavior under conditions of imperfect competition and adjustment costs. New Keynesian models suggest that stabilization policies can improve welfare by reducing output volatility and inflation. Taylor (1993) developed a simple but effective monetary policy rule, later known as the Taylor Rule, which states that the central bank should raise nominal interest rates by more than one-to-one against the rise in inflation to maintain price stability.

Bernanke and Gertler (1989) introduced the concept of the financial accelerator, which explains how financial market conditions can amplify the impact of economic shocks. According to this theory, a decline in borrowers' net worth due to negative shocks increases the cost of external financing due to asymmetric information between lenders and borrowers. This leads to a greater decline in investment and output than would have been the case without financial frictions. The financial accelerator provides additional justification for government intervention to stabilize the financial system and prevent financial crises that could have significant real economic impacts.

Empirical research on the effectiveness of fiscal policy shows mixed results depending on country characteristics and economic conditions. Blanchard and Perotti (2002) used a structural vector autoregression approach to identify fiscal policy shocks and found that the fiscal multiplier in the United States ranged from 0.9 to 1.3. Research by Ilzetzki, Mendoza, and Vegh (2013), analyzing 44 countries, found that the fiscal multiplier was larger in developed countries than in developing countries, and larger in fixed exchange rate regimes than in floating exchange rate regimes. These findings suggest that the effectiveness of fiscal policy is highly dependent on a country's structural and institutional conditions.

Auerbach and Gorodnichenko (2012) found evidence that the fiscal multiplier is state-dependent, meaning it is larger in recessionary conditions than in expansionary conditions. They estimated that the fiscal multiplier can reach 2.5 during recessionary conditions, but approach zero or even negative during expansionary conditions. This finding supports the use of countercyclical fiscal policy, which is expansionary in recessionary conditions and contractionary in booming conditions. It also explains why the austerity policies implemented in various European countries after the 2008 crisis resulted in deeper economic contractions than expected.

Research on monetary policy has grown rapidly since the 2008 global financial crisis, which forced central banks in various countries to adopt unconventional monetary policies. Bernanke (2020) explained that when policy interest rates reach the zero lower bound, central banks need to use additional instruments such as quantitative easing and forward guidance to provide monetary stimulus. Quantitative easing works through the purchase of long-term assets by central banks to lower long-term interest rates and improve financial market liquidity. Forward guidance works through communication regarding future monetary policy plans to influence market participants' expectations.

Studies on the coordination of fiscal and monetary policies show that an appropriate policy mix is crucial for successful economic stabilization. Leeper (1991) developed the concept of active and passive policy, explaining how the combination of fiscal and monetary policies determines macroeconomic equilibrium. In a monetary dominance regime, monetary policy is active in maintaining price stability, while fiscal policy is passive, adjusting the primary surplus to maintain debt sustainability. Conversely, in a fiscal dominance regime, fiscal policy does not respond to the debt position, forcing monetary policy to accommodate fiscal financing needs even though this can lead to inflation.

Davig and Leeper (2011) developed a model with policy regime switching, which shows that the interaction between fiscal and monetary policies can change over time. Under normal conditions, monetary policy is active and fiscal policy is passive. However, in a crisis or when interest rates approach the zero lower bound, the policy mix may shift to a more active fiscal policy and a more accommodative monetary policy. This flexibility in the policy mix allows for a more optimal response to various economic conditions.

The experiences of various countries in overcoming crises provide lessons on the importance of a swift and appropriate policy response. Koo (2008) analyzed Japan's prolonged economic stagnation since the early 1990s and introduced the concept of a balance sheet recession. According to Koo, the crisis in Japan was caused by the debt minimization behavior of the private sector due to the damage to their financial balance, so that monetary policy became ineffective in stimulating demand. Under these conditions, only expansionary fiscal policy could prevent a deeper economic depression. Japan's experience reveals that a late or inadequate policy response can lead to long-term economic stagnation.

Reinhart and Rogoff (2009), in their study of eight centuries of financial crises, found that systemic banking crises are typically followed by deep economic contractions and slow recoveries. They noted that real output per capita fell by an average of 9 percent from peak to trough, unemployment rose by an average of 7 percent, and real government debt increased by an average of 86 percent in the three years following the crisis. These findings suggest that financial crises have a much larger and more persistent real economic impact than typical recessions, necessitating a more extensive policy response.

Studies of crises in developing countries demonstrate their greater vulnerability to external shocks. Calvo, Izquierdo, and Mejia (2004) describe the phenomenon of sudden stops in capital flows to developing countries, which can trigger economic and financial crises. A sudden stop occurs when foreign investors abruptly withdraw their funds from a country due to changing sentiment or increased risk perception. This can lead to sharp exchange rate depreciation, increased financing costs, and economic contraction. Countries with a high dependence on external financing and limited foreign exchange reserves are particularly vulnerable to this phenomenon.

Research on the role of structural policies in enhancing economic resilience to crises has also received increasing attention. Blanchard, Jaumotte, and Loungani (2014) found that countries with greater labor market flexibility experienced smaller declines in unemployment during crises and faster recoveries afterward. However, they also noted that excessive flexibility can increase worker insecurity and income inequality. This suggests the need for a balance between market flexibility and adequate social protection.

Acemoglu, Johnson, and Robinson (2005) emphasized the role of institutions in determining a country's long-term economic performance. They argue that countries with good quality institutions, including strong law enforcement, protection of property rights, and low levels of corruption, tend to have higher and more stable economic growth. Strong institutions also enable more effective implementation of economic policies by reducing principal-agent problems and increasing the credibility of government policies.

Ostry, Loungani, and Furceri (2016) from the International Monetary Fund conducted a study on the impact of inequality on economic growth and found that high levels of inequality tend to reduce long-term economic growth. They also found that income redistribution through taxes and transfers does not always negatively impact growth and can even enhance growth if it reduces excessive inequality. This finding provides a new perspective on the trade-off between efficiency and equity in economic policy.

Various researchers have researched macroeconomic policy in Indonesia. Warjiyo and Juhro (2019) analyzed monetary policy transmission in Indonesia and found that the interest rate channel, the exchange rate channel, and the expectations channel were the dominant transmission channels. They emphasized the importance of effective policy communication to influence public inflation expectations and enhance the effectiveness of monetary policy. Their study also showed that the effectiveness of monetary policy is significantly influenced by the depth of financial markets and the level of banking intermediation.

Basri and Hill (2020) examined the Indonesian government's policy response to the COVID-19 crisis and assessed that the response was relatively rapid and encompassed a variety of fiscal, monetary, and financial sector policy instruments. However, they noted that the implementation of stimulus programs faced various obstacles, including complex bureaucracy and limited institutional capacity. They also emphasized the importance of structural reforms to increase Indonesia's economic productivity and competitiveness in the long term.

Research by the Indonesian Ministry of Finance (2021) on the evaluation of the National Economic Recovery Program shows that the program is effective in supporting public purchasing power and maintaining business continuity. Social protection programs, including cash social assistance, basic food cards, and the Family Hope Program, have successfully reached 40 million beneficiary families. Tax incentives and interest subsidies have successfully maintained business liquidity, particularly for micro, small, and medium enterprises (MSMEs), which have been most impacted by the pandemic.

METHOD

This study uses a descriptive qualitative approach to analyze the role of the government in maintaining macroeconomic stability amidst the global crisis. The qualitative approach was chosen because it aligns with the research objective of understanding the dynamics of macroeconomic policies and how they are implemented in response to various external shocks. The descriptive method is used to systematically describe the facts and characteristics of government policies and their impact on macroeconomic variables.

This study utilizes secondary data collected from various official and reliable sources. The primary data sources include publications from the Central Bureau of Statistics, which provide data on economic growth, inflation, unemployment, exports and imports, and various other macroeconomic indicators. Fiscal policy data are obtained from publications of the Ministry of Finance of the Republic of Indonesia, including financial notes, budget realization reports, and various fiscal policy documents. Monetary policy data are sourced from Bank Indonesia publications, including monetary policy reports, Indonesian economic and financial statistics, and various economic and financial studies.

In addition to domestic sources, this study also utilizes data from international institutions to provide a comparative perspective. The International Monetary Fund provides data on macroeconomic indicators for various countries through the World Economic Outlook Database. The World Bank provides global development data through the World Development Indicators. The Asian Development Bank provides data and analysis on the economies of Asia and the Pacific. The use of data from various international sources allows for comparison of Indonesia's economic performance with other countries and provides a broader context for the analysis.

The analysis period in this study is 2020 to 2024, encompassing the crisis period caused by the COVID-19 pandemic, the economic recovery phase, and the period of global geopolitical tensions. This period was chosen based on the consideration that during this timeframe, significant external shocks occurred, and the government implemented various macroeconomic stabilization policies whose effectiveness can be evaluated. This period is also long enough to observe the short- and medium-term impact of these policies.

The data analysis technique used in this study is content analysis of government policy documents to understand the rationale, instruments, and targets of the established policies. Content analysis was conducted systematically by identifying key themes in the policy documents, categorizing the various policy instruments used, and analyzing the consistency between announced policies and their implementation. Furthermore, trend analysis was conducted on time series data of various macroeconomic variables to identify patterns of change before, during, and after policy implementation.

Comparative analysis was conducted to compare Indonesia's macroeconomic performance with that of other countries facing similar crises. Comparisons were made primarily with ASEAN countries such as Thailand, Malaysia, the Philippines, and Vietnam, as well as several large developing countries, such as India and Brazil. This comparative analysis aims to identify the relative strengths and weaknesses of policies implemented by the Indonesian government and the lessons learned from the experiences of other countries.

To ensure the validity of the research results, data triangulation was conducted by comparing information from various sources. Statistical data from the Central Bureau of Statistics (BPS) was compared with data from international institutions to ensure consistency. Policy information from official government documents was confirmed with media coverage and analysis from independent research institutions. This triangulation process increased the reliability of the research findings and reduced the possibility of bias in data interpretation.

The limitations of this research must be acknowledged to provide an appropriate context for interpreting the results. First, the use of secondary data limits the research's ability to deeply explore the causal mechanisms between policies and economic outcomes. Second, the complexity of the macroeconomic system and the multitude of simultaneously influencing factors make it difficult to isolate the specific impact of a particular policy. Third, the limited availability of high-frequency data for some variables limits the ability to conduct more detailed analyses of short-term dynamics.

RESULT AND DISCUSSION

The global crisis triggered by the COVID-19 pandemic in early 2020 significantly impacted the Indonesian economy. Data from the Central Statistics Agency (BPS) shows that the Indonesian economy contracted by 2.07 percent in 2020, the first negative growth since the 1998 Asian financial crisis. This contraction affected nearly all economic sectors, with the transportation and warehousing sector experiencing the deepest contraction of 15.04 percent, followed by the accommodation and food and beverage sector, which contracted by 10.19 percent. Restrictions on mobility and economic activity to control the spread of the virus caused serious disruptions to the supply chain and aggregate demand.

On the expenditure side, household consumption, typically the mainstay of the Indonesian economy, contributing around 55 percent of GDP, also contracted by 2.63 percent in 2020. Investment, or gross fixed capital formation, contracted by 4.88 percent, indicating declining business confidence in the future economic outlook. Exports of goods and services fell 7.70 percent due to weakening global demand and disruptions to international trade. Only government spending maintained positive growth of 2.61 percent as a result of the government's fiscal stimulus.

In response to the deep economic contraction, the government launched the National Economic Recovery Program with a massive budget allocation of IDR 699.43 trillion, or approximately 4.4 percent of GDP. This program comprises several main clusters: social protection (IDR 203.90 trillion); business support and corporate financing (IDR 150.66 trillion); health (IDR 179.40 trillion); business incentives (IDR 120.61 trillion); and priority programs (IDR 44.86 trillion). This substantial budget allocation demonstrates the government's commitment to addressing the crisis and reflects a Keynesian approach to fiscal policy.

Social protection programs are designed to maintain the purchasing power of the community, especially vulnerable groups who are most affected by the crisis. The Family Hope Program was expanded to reach 10 million beneficiary families with an average assistance of IDR 550,000 per family per quarter. The Staple Food Card Program, or non-cash food assistance, was expanded to 20 million beneficiary families with an assistance value of IDR 200,000 per family per month. Direct Cash Assistance was provided to 9 million families not covered by the regular social assistance program at a value of IDR 600,000 per family. In addition, the government provided electricity subsidies for 24 million

PLN electricity customers and electricity payment relief for 7 million customers of certain power sources.

Support for businesses was provided through various instruments to maintain operational continuity and prevent mass layoffs. The government provided tax incentives in the form of exemptions from Article 21 income tax for workers in the manufacturing sector with annual incomes of up to IDR 200 million. A 30 % reduction in Article 25 income tax rates was provided for certain corporate taxpayers. Value-added tax restitution was accelerated to increase corporate liquidity. The government also allocated funds for placement in financial institutions, support for MSME financing through micro, small, and medium enterprises (MSME) credit, and interest subsidies for working capital loans.

On the monetary side, Bank Indonesia lowered its benchmark interest rate, the BI 7-Day Reverse Repo Rate, five times during 2020, by a total of 150 basis points, from 5.00 percent at the beginning of the year to 3.50 percent at the end. This interest rate cut was the deepest since the central bank adopted a new benchmark interest rate in 2016. This policy aimed to encourage banking intermediation, lower borrowing costs, and stimulate consumption and investment. Furthermore, Bank Indonesia also lowered the minimum reserve requirement ratio for conventional commercial banks in rupiah three times, by a total of 250 basis points, to 3.00 percent to increase banking system liquidity.

Bank Indonesia also implemented quantitative easing by purchasing government securities in the primary market totaling IDR 574.37 trillion during 2020 to support financing the government's budget deficit. This measure was a breakthrough, previously unheard of by Bank Indonesia due to the limited scope of central banks in financing budget deficits under the Bank Indonesia Law. However, during the pandemic emergency, the government and Bank Indonesia agreed to share the costs of pandemic management and economic recovery through Government Regulation instead of Law Number 1 of 2020, which was later ratified into law.

The close coordination of fiscal and monetary policies during the crisis was reflected in various intensive coordination forums held between the Ministry of Finance, Bank Indonesia, and the Financial Services Authority. These coordination forums discussed various issues, including macroeconomic projections, government financing needs, financial system conditions, and policy communication strategies. This strong coordination enabled a synergistic policy mix, where expansionary fiscal policy was supported by accommodative monetary policy and loose macroprudential policies to maintain financial system stability.

The results of these policies began to be seen in 2021, when the Indonesian economy returned to positive growth of 3.69 percent. The economic recovery was driven primarily by household consumption, which grew 1.97 percent, and investment, which grew 3.77 percent. Government consumption grew very strongly, reaching 6.60 percent, reflecting the continued fiscal stimulus. Exports of goods and services grew 21.95 percent, driven by recovering global demand and rising commodity prices. On the production side, almost all economic sectors recorded positive growth, with the information and communications sector experiencing the highest growth rate, reaching 10.58 percent, followed by the trade sector, which grew 6.59 percent.

The economic recovery continued with stronger momentum in 2022, when the economy grew 5.31 percent, surpassing pre-pandemic growth rates. Household consumption grew 4.94 percent in line with an improving labor market and easing of mobility restrictions. Investment grew 3.87 percent, indicating increased business confidence. Exports of goods and services grew 16.32 percent, driven by high commodity prices, particularly coal and palm oil. The open unemployment rate fell to 5.83 percent in August 2022 from 6.49 percent in August 2021, indicating improving labor market conditions.

However, this economic recovery was accompanied by increasing inflationary pressures due to rising global commodity prices caused by the Russia-Ukraine conflict. Indonesia's annual inflation reached 5.51 percent in September 2022, exceeding Bank Indonesia's upper limit of its 4 percent inflation target. Core inflation reached 3.21 percent, while volatile food inflation reached 11.35 percent. The increase in inflation was primarily driven by the food, beverage, and tobacco group, which experienced inflation of 9.42 percent, and the transportation group, which experienced inflation of 11.66 percent.

In response to rising inflationary pressures, Bank Indonesia raised its benchmark interest rate six times during 2022, totaling 225 basis points, from 3.50 percent at the beginning of the year to 5.75 percent at the end. These interest rate increases aimed to anchor inflation expectations and bring inflation back within the target range. Bank Indonesia also raised the rupiah reserve requirement ratio from 3.00 percent to 9.00 percent to absorb excess liquidity in the banking system. Regarding the exchange rate, Bank Indonesia stabilized the rupiah through interventions in the spot market and the domestic non-deliverable forward foreign exchange market.

On the fiscal side, the government has begun gradual fiscal consolidation by reducing the budget deficit from 6.09 percent of GDP in 2020 to 4.65 percent in 2021 and 2.38 percent in 2022. Fiscal consolidation is carried out by increasing state revenues and controlling state spending while maintaining priority programs to support economic recovery. State revenue growth is driven by improving economic activity and high commodity prices, which have increased tax and non-tax revenues, particularly from the natural resources sector.

In 2023, the Indonesian economy continued to grow solidly, reaching 5.05 percent, despite facing various external headwinds, including a global economic slowdown and rising interest rates in developed countries. Household consumption, which grew 4.85 percent, remained the main driver of economic growth. Investment grew 4.52 percent, driven by record-high foreign direct investment. Exports of goods and services grew only 0.87 percent due to weakening global demand, particularly from China. On the production side, the construction sector recorded the highest growth, reaching 6.41 percent, reflecting continued infrastructure development.

Inflation was successfully controlled and returned to the target, with annual inflation reaching 2.61 percent in December 2023. This successful inflation control was the result of an appropriate policy mix of tight monetary policy, food price stabilization through market operations and the distribution of food aid, and lower global energy prices. Bank Indonesia has maintained its benchmark interest rate at 6.00 percent since January 2023 to ensure inflation remains controlled and inflation expectations remain anchored to the target.

The budget deficit continued to decline to 1.65 percent of GDP in 2023, demonstrating the government's commitment to maintaining fiscal sustainability. The government debt-to-GDP ratio also decreased to 38.59 percent by the end of 2023 from a peak of 40.74 percent in 2021. This decline in the debt ratio was driven by strong nominal economic growth and prudent debt management. The government continues to maintain a healthy debt structure, with a domestic debt ratio of around 70 percent and external debt of around 30 percent, to minimize exchange rate risk.

Indonesia's external sector performance demonstrated considerable resilience despite facing global volatility. Indonesia's foreign exchange reserves at the end of 2023 reached US$146.4 billion, equivalent to financing 6.5 months of imports and servicing the government's external debt, well above international adequacy standards. The current account balance recorded a surplus of 0.99 percent of GDP in 2023, down from a surplus of 0.75 percent in 2022. The goods trade balance recorded a surplus of US$36.86 billion, while the services balance recorded a deficit of US$12.62 billion.

Compared to other countries in the ASEAN region, Indonesia's economic recovery performance is quite good. Indonesia's economic growth in 2023 was 5.05 percent, lower than Vietnam's 5.05 percent and the Philippines' 5.60 percent, but higher than Thailand's 1.90 percent and Malaysia's 3.70 percent. In terms of inflation, Indonesia successfully controlled inflation within the target range, while several ASEAN countries still faced higher inflationary pressures. It demonstrates the effective policy mix implemented by the Indonesian government in maintaining a balance between growth and stability.

The following table presents a comparison of Indonesia's main macroeconomic indicators with selected ASEAN countries during the 2020-2023 period.

Country	Economic Growth (%)				Inflation (%)			
	2020	2021	2022	2023	2020	2021	2022	2023
Indonesia	-2,07	3,69	5,31	5,05	1,92	1,56	5,51	2,61
Thailand	-6,10	1,50	2,60	1,90	-0,85	1,23	6,08	1,23
Malaysia	-5,60	3,30	8,70	3,70	-1,14	2,48	3,38	2,50
Filipina	-9,60	5,70	7,60	5,60	2,40	4,20	5,80	6,00
Vietnam	2,90	2,60	8,00	5,05	3,20	1,80	3,20	3,25
Singapura	-4,10	8,90	3,60	1,10	-0,20	2,30	6,10	4,80

Source: Asian Development Bank and Central Banks of Each Country

The table shows that Indonesia's economic contraction in 2020 was not as severe as that of other ASEAN countries except Vietnam, indicating that the fiscal and monetary stimulus measures implemented were quite effective in mitigating the impact of the crisis. Indonesia's economic recovery has also been consistent, with relatively stable growth in subsequent years. In terms of inflation, Indonesia has managed to maintain a more controlled inflation rate compared to several neighboring countries, especially in 2023.

The effectiveness of fiscal policy in promoting economic recovery can be seen in its impact on various economic and social indicators. Social protection programs have successfully reduced extreme poverty and prevented a larger increase in poverty due to the pandemic. Indonesia's poverty rate increased from 9.78 percent in September 2019 to 10.19 percent in September 2020, but this increase was relatively controlled compared to initial projections that predicted a 12-13 percent increase without government intervention. By March 2023, the poverty rate had been reduced to 9.36 percent, lower than pre-pandemic levels.

Support for businesses, particularly MSMEs, has also had a positive impact in maintaining business continuity and preventing mass layoffs. Micro-Scale Business Credit (MSME) disbursement reached IDR 253.71 trillion in 2020, with 4.27 million borrowers, a significant increase from the previous year. The interest subsidy program for working capital loans for MSMEs also helped alleviate the interest burden on 7.9 million borrowers. However, many MSMEs continue to experience liquidity difficulties and have been forced to scale back their businesses or even close due to the drastic decline in demand.

Accommodative monetary policy has successfully maintained financial system stability and supported banking intermediation. Bank credit growth in 2021 reached 6.44 percent, up from only 2.41 percent in 2020. The non-performing loan ratio remained at a relatively safe level of 3.00-3.20 percent throughout the crisis. The banking sector's capital adequacy ratio remained high at above 24 percent, indicating that banks have sufficient buffers to absorb potential losses.

However, a prolonged period of extremely loose monetary policy also poses several risks and challenges. The deep interest rate cuts have narrowed banks' net interest margins, which can reduce profitability and their ability to accumulate capital. Excessive liquidity in the banking system has not been fully channeled to the real sector due to banks' risk aversion amidst uncertainty. Bank funds placed with Bank Indonesia through monetary instruments have increased significantly, reflecting a strong liquidity preference.

Bank Indonesia's purchases of government securities in the primary market have also raised debate about the central bank's independence and risks to the credibility of monetary policy. Although this policy was implemented under emergency conditions and with a clear framework, including an exit strategy mechanism, it still raises concerns about the potential for fiscal dominance over monetary policy. Bank Indonesia must be extremely careful in managing the liquidity injected through SBN purchases to prevent future inflationary pressures.

The normalization of monetary policy, which began in 2022, will be carried out gradually and in a measured manner, taking into account domestic and global economic conditions. The increase in the benchmark interest rate will be preemptive and front-loaded to prevent greater inflationary pressures and maintain rupiah exchange rate stability. A sound policy communication strategy through forward guidance helps shape market expectations and reduce financial market volatility. Bank Indonesia has consistently maintained a hawkish policy stance to underscore its commitment to maintaining price stability.

The government's fiscal consolidation since 2021 demonstrates its commitment to returning to long-term fiscal sustainability. The budget deficit has been reduced gradually to avoid a fiscal cliff that could disrupt economic recovery. The government continues to maintain productive spending, particularly on infrastructure, education, and health, while improving spending efficiency. Increasing state revenue is focused on expanding the tax base and improving tax compliance through tax administration reforms.

The implementation of the Tax Regulation Harmonization Law in 2022 is part of tax reform efforts to increase state revenue and create a fairer and more efficient tax system. The increase in the value-added tax rate from 10 percent to 11 percent in April 2022 is estimated to increase state revenue by around IDR 52 trillion per year. However, this increase will be implemented gradually, with a planned further increase to 12 percent no later than 2025 to allow time for the public and businesses to adjust.

Macroeconomic policy coordination not only between fiscal and monetary authorities but also involves the Financial Services Authority (OJK) in maintaining financial system stability. The Financial Services Authority (OJK) is providing various macroprudential policy relaxations to support the ability of financial institutions to channel financing. The credit restructuring policy for debtors affected by the pandemic has been extended several times to provide room for debtors to recover their businesses. As of December 2022, restructured credit reached IDR 1,055 trillion, or approximately 16 percent of total bank credit.

Although various implemented policies have been quite effective in maintaining macroeconomic stability, several structural issues remain unresolved. Indonesia's low economic productivity remains an obstacle to achieving high-quality economic growth. According to OECD data, Indonesia's labor productivity is only about a quarter of that of other OECD countries. It is due to the low quality of human resources, limited technology adoption, and inefficiencies in resource allocation.

High economic inequality also requires serious attention. Indonesia's Gini coefficient in March 2023 was recorded at 0.381, still relatively high, despite having decreased from 0.393 in September 2019. High inequality not only creates social problems but can also hinder long-term economic growth by limiting access for most people to education, health care, and economic opportunities. More progressive policies are needed in income distribution and access to public services.

The economic transformation towards a knowledge-based and high-tech economy remains slow. Indonesia's economic structure is still dominated by low-value-added sectors. The manufacturing sector's contribution to GDP has actually experienced premature deindustrialization, declining from around 29 percent in the mid-1990s to around 19 percent in 2023. Meanwhile, the contribution of the services sector has increased, particularly trade and transportation, which remain largely traditional and low-productivity.

Despite significant improvements in infrastructure quality over the past decade, Indonesia's infrastructure quality remains a barrier to economic competitiveness. According to the World Economic Forum, Indonesia's infrastructure quality ranked 72nd out of 141 countries in 2019. The infrastructure gap between Java and outside Java remains wide, hampering equitable economic development. The government's infrastructure development, such as toll roads, ports, and airports, needs to be continued and expanded to underdeveloped regions to open broader economic access.

Indonesia's economic dependence on primary commodities remains quite high, making it vulnerable to global commodity price volatility. Exports of commodities such as coal, palm oil, and minerals still dominate Indonesia's export structure. When commodity prices are high, as in 2022, export performance is strong and contributes positively to economic growth and the current account surplus. However, when commodity prices fall, as in 2023, exports come under pressure, and economic growth becomes more reliant on domestic demand.

Efforts to diversify the economy and increase the added value of export products need to be continuously encouraged through appropriate industrial policies. The development of downstream commodity industries, such as nickel processing into electric vehicle batteries, palm oil processing into oleochemical products, and coal processing into gasification and other derivative products, can increase added value and create more jobs. The government has implemented a nickel ore export ban since 2020 to encourage domestic smelter development, and the results have been quite encouraging, with a significant increase in investment in the nickel processing sector.

In the face of climate change and the global energy transition, Indonesia needs to balance its commitment to reducing emissions with the needs of economic growth. Indonesia has set a target of achieving net-zero emissions by 2060 or sooner with international support. Achieving this target requires significant investment in renewable energy, energy efficiency, and low-carbon technologies. The government has launched the B30 program for the use of biodiesel with a 30 percent blend of fatty acid methyl esters from palm oil, and plans to increase this to B40 to reduce dependence on fossil fuels.

Renewable energy development faces various obstacles, including high investment costs, technological limitations, and integration issues into the electricity system. The capacity of solar, wind, and geothermal power plants remains small compared to fossil-based power plants, especially coal. The government needs to provide greater incentives for renewable energy investment and improve regulations to facilitate the development of clean energy projects. Furthermore, investment in energy storage technology and smart grids is needed to address the intermittency issue of renewable energy.

The digitalization of the economy, accelerated by the pandemic, opens up significant opportunities for Indonesia's economic growth. The value of Indonesia's digital economy reached US$77 billion in 2022 and is projected to reach US$130 billion by 2025. The e-commerce, fintech, ride-hailing, and online travel sectors are driving the digital economy. However, the development of the digital economy also raises various new issues, including unequal competition with the conventional economy, taxation issues, consumer protection, and data security.

Digital economy regulations need to be continuously refined to balance encouraging innovation with protecting local players and consumers. The implementation of value-added tax for digital products and e-commerce transactions was implemented through Minister of Finance Regulation Number 60 of 2022. The government has also required foreign digital platforms to register as value-added tax collectors. By the end of 2023, 169 digital companies had been appointed as VAT collectors, with total revenue reaching IDR 16.9 trillion since the implementation of this policy.

Personal data protection has become a crucial issue with the increase in digital transactions. The Personal Data Protection Law, passed in 2022, provides a clear legal framework for the collection, processing, and storage of personal data. However, implementation of this law requires a transition period and the establishment of an independent supervisory body. Public education on the importance of personal data protection is also necessary, given the low public awareness of the risks of data breaches.

The digital financial system, or fintech, is growing rapidly with various services including peer-to-peer lending, digital payments, robo-advisors, and cryptocurrency. The number of digital wallet users reached 88.1 million in 2023, with transaction values reaching IDR 379 trillion. The development of fintech offers significant benefits in increasing financial inclusion, especially for communities underserved by conventional banking systems. However, the associated risks, including credit risk, operational risk, and cybersecurity risk, need to be properly managed through appropriate regulations.

Bank Indonesia and the Financial Services Authority (OJK) have issued various regulations to regulate fintech and maintain financial system stability. The implementation of open banking through the National Standard for Open API Payment Systems enables integration between various digital financial platforms and improves payment system efficiency. The launch of the Quick Response Code Indonesian Standard (QRIS) in 2019 successfully unified various previously disparate digital payment systems, improving interoperability and ease of transactions.

Financial inclusion in Indonesia has increased significantly, from 67.8 percent in 2016 to 85.1 percent in 2022, according to a Bank Indonesia survey. The growth was driven by expanded access to digital financial services and government programs distributing social assistance through bank accounts. However, gaps in financial inclusion remain between high- and low-income groups, between urban and rural areas, and between men and women. Efforts to narrow this gap must be continued through financial education, expanding service networks, and providing financial products that meet the needs of the community.

Food security is a strategic issue that is increasingly relevant amid global uncertainty. Indonesia still imports several strategic food commodities such as wheat, soybeans, and sugar. Dependence on food imports makes Indonesia vulnerable to global food price shocks, such as those experienced in 2022 due to the Russia-Ukraine conflict. The government has launched various programs to increase domestic food production, including agricultural land expansion, fertilizer subsidies, and improved irrigation. However, increased production faces various obstacles, including agricultural land conversion, climate change, and low agricultural productivity.

Agricultural modernization through the adoption of technology and mechanization needs to be accelerated to increase productivity. The use of superior seeds, balanced fertilizers, modern irrigation systems, and agricultural machinery can significantly increase production. The government also needs to improve the food distribution and logistics system to reduce price disparities between surplus and deficit areas. The development of food estates in several regions, such as Central Kalimantan, is an effort to increase large-scale food production, although this program has also drawn criticism regarding its environmental impact and effectiveness.

Food price stability is a primary focus for the government, given its direct impact on purchasing power, especially for low-income groups. The government has implemented various interventions, including market operations, regulating government rice stocks through the National Logistics Agency (Bulog), and providing subsidies for certain commodities. In 2023, the government launched a food aid program, providing 10 kilograms of rice per month to 22 million beneficiary families for four months to alleviate the burden on the community caused by high food inflation.

Structural reforms in various economic sectors need to be continued to increase competitiveness and long-term economic resilience. The Job Creation Law, passed in 2020 and subsequently revised as Government Regulation in Lieu of Law No. 2 of 2022, aims to improve the investment ecosystem and ease of doing business. These reforms include simplifying business licensing, increasing labor flexibility, and facilitating investment in various sectors. However, the implementation of these reforms has faced resistance from various groups concerned about their negative impact on worker protection and the environment.

Improving the quality of human resources through investments in education and health is the foundation for long-term economic growth. Indonesia's Human Development Index increased from 71.92 in 2019 to 74.39 in 2023. However, this achievement still lags behind several ASEAN countries such as Singapore, Brunei, Malaysia, and Thailand. The quality of Indonesian education is still low based on the results of the Program for International Student Assessment, which places Indonesia at the bottom in reading, mathematics, and science skills.

The government has allocated 20 percent of the state budget (APBN) for education, as mandated by the constitution. However, budget increases do not automatically result in proportional improvements in education quality, as numerous challenges remain within the education system, including teacher quality, curriculum relevance to job market needs, and disparities in education quality between regions. The Merdeka Belajar (Freedom to Learn) program, launched by the Ministry of Education, Culture, Research, and Technology, aims to provide schools and teachers with greater flexibility in designing learning that meets student needs.

The health sector has also experienced increased investment, particularly since the COVID-19 pandemic exposed various weaknesses in the health system. The National Health Insurance (Jaminan Kesehatan) program, managed by BPJS Kesehatan (Social Security Agency for Health), covered 242.5 million people, or approximately 88.5 percent of the total population, by 2023. However, this program faces a growing financial deficit due to the imbalance between contributions received and healthcare costs. The government needs to reform BPJS Kesehatan, including adjusting contributions, controlling costs through a tiered referral system, and improving service efficiency.

Policy coordination between the central and regional governments is also a crucial factor in the successful implementation of macroeconomic policies. Extensive regional autonomy grants regional governments significant authority in managing the economy within their regions. However, this can also lead to policy fragmentation and a lack of synchronization with national policies. The central government needs to strengthen coordination with regional governments through coordination forums and fiscal incentives to encourage regions to implement policies that align with national policy directions.

Fiscal decentralization has provided substantial funds to regional governments through transfers of General Allocation Funds, Special Allocation Funds, and Revenue Sharing Funds. In 2023, total transfers to regions and village funds reached IDR 831.5 trillion, or approximately 24 percent of total state spending. However, the effectiveness of these funds varies across regions, depending on institutional capacity and the quality of leadership. The central government needs to continue providing guidance and supervision to ensure that transferred funds are used effectively and efficiently.

Good governance is a prerequisite for effective economic policy. Corruption, bureaucratic red tape, and weak law enforcement continue to hinder the investment climate and economic efficiency. Indonesia's Corruption Perception Index in 2023 scored 34 out of 100, indicating a persistently high level of corruption despite improvements from previous years. Efforts to eradicate corruption through strengthening the Corruption Eradication Commission and bureaucratic reform need to be continued to increase public and investor trust.

Bureaucratic reforms undertaken over the past two decades have shown some progress, including improving the quality of public services through digitalization and an integrated service system. However, much work remains to be done, including simplifying regulations, improving the competence of civil servants, and developing a consistent merit system. The government has launched an Online Single Submission system for business licensing, which integrates various permits from various ministries, institutions, and local governments into a single digital platform.

Private sector involvement in infrastructure development through Public Private Partnership (PPP) schemes needs to be further enhanced, given the government's fiscal constraints. By the end of 2023, there were 71 PPP projects with a total investment value of IDR 545 trillion under construction or operation. However, PPP implementation faces various obstacles, including complex transaction structures, unbalanced risk allocation, and lengthy tender processes. The government needs to continue to improve the regulatory framework and provide adequate support to increase the attractiveness of PPP investments.

The development of capital markets as an alternative source of financing needs to be continuously encouraged to reduce dependence on bank financing. Indonesia's stock market capitalization reached IDR 12,352 trillion at the end of 2023, or approximately 55 percent of GDP, relatively low compared to developed countries, which reach 100-200 percent of GDP. The number of companies listed on the Indonesia Stock Exchange reached 925, up from 668 at the end of 2019. The government needs to continue encouraging more companies to go public and increase capital market literacy in the community.

The corporate bond market also needs to be developed as a source of long-term financing for companies. Outstanding corporate bonds at the end of 2023 reached IDR 502.3 trillion, still significantly smaller than outstanding government bonds, which reached IDR 3,892 trillion. Developing the corporate bond market requires improvements in market infrastructure, including a credible credit rating system, active market makers, and strong institutional investors. The development of green bond and sustainability bond markets also needs to be encouraged in line with the commitment to transition to a low-carbon economy.

Regional economic integration through Indonesia's membership in various free trade agreements presents both opportunities and challenges. Indonesia is a member of the ASEAN Free Trade Area, the ASEAN-China Free Trade Area, the ASEAN-Korea Free Trade Area, the ASEAN-Japan Comprehensive Economic Partnership, the ASEAN-Australia-New Zealand Free Trade Area, and the Regional Comprehensive Economic Partnership. These agreements provide broader market access for Indonesian products but also increase competition from imported products. Indonesia needs to capitalize on these market access opportunities by enhancing the competitiveness of domestic products and protecting sensitive sectors.

Increasingly complex global geoeconomic and geopolitical issues require more active and strategic economic diplomacy. Competition between the United States and China, the reorientation of global supply chains, rising protectionism, and the fragmentation of the global economy pose both risks and opportunities for Indonesia. Indonesia's strategic geographical position and independent and active foreign policy provide room for Indonesia to play a greater role in global economic governance. Indonesia needs to continue strengthening bilateral economic relations with various countries and position itself as a neutral and trustworthy country for all parties.

Indonesia's leadership in international forums such as the G20, ASEAN, and various other multilateral organizations should be utilized to promote national interests and contribute to solutions to various global problems. Indonesia's G20 presidency in 2022 successfully produced several important agreements, including commitments to strengthen the global health architecture, promote a just energy transition, and reform the global tax system to address tax avoidance by multinational corporations. This success demonstrates Indonesia's ability to play a constructive leadership role in global governance.

CONCLUSION

This research shows that the Indonesian government has played an active and effective role in maintaining macroeconomic stability amidst various global crises that occurred during the 2020-2024 period. The swift and massive policy response through the National Economic Recovery Program, with a budget allocation of IDR 699.43 trillion, successfully mitigated the impact of the economic contraction caused by the COVID-19 pandemic and returned economic growth to a positive path. The Indonesian economy, which contracted 2.07 percent in 2020, recovered to grow 3.69 percent in 2021 and reached 5.31 percent in 2022, demonstrating the success of the stabilization policies implemented.

Close coordination between fiscal and monetary policies is key to maintaining macroeconomic stability. The government's expansionary fiscal policy, through increased social spending and support for the business sector, is supported by accommodative monetary policy through lowering the benchmark interest rate and easing liquidity. Bank Indonesia also made a breakthrough by purchasing government securities in the primary market to support financing for the economic recovery program. This policy mix produces an optimal synergistic effect in overcoming the multidimensional crisis faced.

The effectiveness of macroeconomic stabilization policies is evident in various success indicators. The poverty rate, which had increased in 2020, was successfully reduced to pre-pandemic levels and even lower in 2023. The open unemployment rate decreased from 7.07 percent in August 2020 to 5.32 percent in August 2023. Inflation was successfully controlled and returned to the target after experiencing pressure in 2022 due to global commodity price shocks. Foreign exchange reserves remained at an adequate level, covering more than six months of imports and servicing the government's foreign debt.

The fiscal consolidation implemented gradually since 2021 demonstrates the government's commitment to maintaining long-term fiscal sustainability. The budget deficit was successfully reduced from 6.09 percent of GDP in 2020 to 1.65 percent in 2023. The government debt-to-GDP ratio also decreased to 38.59 percent in 2023, still within safe limits based on various international standards. This reduction in the deficit and debt ratio was achieved without sacrificing priority programs that support economic recovery and long-term development.

The normalization of monetary policy implemented by Bank Indonesia since 2022 is an appropriate step to anticipate inflationary pressures and maintain exchange rate stability. The 225 basis point increase in the benchmark interest rate throughout 2022 was carried out preemptively and in a measured manner, taking into account domestic and global economic conditions. A sound policy communication strategy helped shape market expectations and reduce volatility. Inflation successfully returned to the target in 2023, demonstrating the effectiveness of the monetary tightening policy.

However, this study also identified several structural issues that still require serious attention to increase Indonesia's economic resilience to future external shocks. Low economic productivity, high inequality, dependence on primary commodities, and limited infrastructure quality are obstacles to achieving high and inclusive economic growth. Structural reforms, including improving human resource quality, diversifying the economy, improving the investment climate, and strengthening institutions, need to be continued.

The economic transformation towards a knowledge-based and high-tech economy needs to be accelerated to increase competitiveness in an increasingly competitive global economy. Digital economic development, value-added industrialization, and the transition to a low-carbon economy are strategies that must be prioritized. The government needs to provide greater support for research and development, technology adoption, and innovation development to drive the necessary economic transformation.

Future macroeconomic policies should be more adaptive and responsive to increasingly uncertain global geoeconomic and geopolitical dynamics. Geopolitical tensions, global economic fragmentation, climate change, and technological disruption are challenges Indonesia will continue to face. The government needs to have well-developed scenarios and contingency plans to anticipate various potential shocks. Strengthening fiscal and monetary policy space is crucial to provide flexibility in responding to future crises.

Policy coordination, not only between fiscal and monetary authorities but also involving various stakeholders, including local governments, the private sector, and civil society, will be increasingly important. The complexity of the economic problems faced requires a more integrated approach involving multiple perspectives. Transparent and effective policy communication is also crucial to building public trust and shaping expectations that align with government policy direction.

Lessons learned from the experience of overcoming the global crisis during the 2020-2024 period provide valuable lessons that the speed and accuracy of policy responses are crucial for the success of economic stabilization. The availability of adequate fiscal and monetary space allows the government to undertake massive interventions when needed. Policy flexibility and the ability to implement breakthroughs during emergencies have also proven crucial. However, all of this must be balanced with a commitment to returning to fiscal and monetary discipline after the crisis has passed to ensure long-term sustainability.

Ultimately, macroeconomic stability is not an end in itself but a prerequisite for achieving broader development goals: improving the welfare of society in a just and equitable manner. Macroeconomic policies must be directed not only at achieving high economic growth but also at inclusive and environmentally friendly growth. The government's role in maintaining macroeconomic stability must be done while still paying attention to aspects of income distribution, poverty alleviation, quality job creation, and environmental preservation for future generations.

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