

Current National Economy and Outlook 2022: Pandemic Impact and Recovery Projections

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ABSTRACT

The COVID-19 pandemic has had a significant impact on the national economy, causing contractions in various sectors and changes in the dynamics of economic policy. In 2022, economic recovery is a top priority with various fiscal and monetary policies implemented to accelerate economic growth and stability. This study uses a literature review method to analyze the impact of the pandemic and projections for Indonesia's economic recovery. The results of the study show that the Indonesian economy has shown good resilience post-pandemic, with indicators such as investment, exports, and domestic consumption supporting positive growth. However, global challenges such as inflation, economic uncertainty, and commodity price fluctuations remain risks that must be anticipated. With effective policy management, sustainable economic recovery is expected to be realized, supporting inclusive growth and public welfare.

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INTRODUCTION

The COVID-19 pandemic has had a significant impact on the national economy, resulting in contractions in various sectors and changes in market dynamics and economic policies. In 2022, economic recovery will be the main focus of the government and business actors, with various efforts being made to accelerate economic growth and stabilize social and financial conditions.

Various economic indicators, such as Gross Domestic Product (GDP) growth, inflation, investment, and unemployment rates, show varying recovery trends. The fiscal and monetary policies implemented, such as economic stimulus and investment incentives, play an important role in accelerating the recovery process. However, global challenges such as economic uncertainty, commodity price fluctuations, and policy changes in trading partner countries remain factors that need to be anticipated.

This article will discuss the current state of the national economy, the impact of the pandemic that is still being felt, as well as the prospects and challenges in facing 2022. By understanding these dynamics, it is hoped that it can provide insight into the strategic steps that need to be taken to support sustainable economic growth.

METHOD

This study uses a literature review method to analyze the Current National Economy and Outlook 2022: Impact of the Pandemic and Projected Recovery. This method involves collecting data from various sources such as scientific articles, research reports, working papers, and other relevant publications. The data is analyzed qualitatively to identify key themes emerging from the literature, such as the impact of the pandemic on economic sectors, government policies in addressing the impact of the pandemic, economic growth projections, challenges and opportunities for economic recovery, and others. This analysis aims to gain a comprehensive understanding of the impact of the pandemic and projections of economic recovery in Indonesia. The results of this study are then presented in a research report containing an introduction, literature review, discussion, and conclusion.

RESULTS AND DISCUSSION

The dynamics of the global and domestic economy have an impact on Indonesia's economic performance in the pre-pandemic period. High investment growth throughout the year and improvements in global economic conditions that drive international trade performance, support the strengthening of national economic growth in 2017-2018 which grew by 5.1 percent and 5.2 percent. National economic performance is also supported by all business sectors that are able to grow positively and are supported by a relatively low inflation rate and the State Budget (APBN) which contributes to maintaining the growth of aggregate demand. 2018 was also marked by the phenomenon of high social activity of political parties ahead of the General Election and the opportunity for Indonesia to host the Asian Games and the IMF - World Bank (WB) Annual Meeting. However, the US and China trade war in 2019 presented quite a tough challenge to international trade. From a domestic perspective, 2019 was also a political year that influenced the preferences of business actors who tended to wait and see to carry out investment activities, so that Gross Domestic Product (GDP) grew slowly by 5.0 percent.

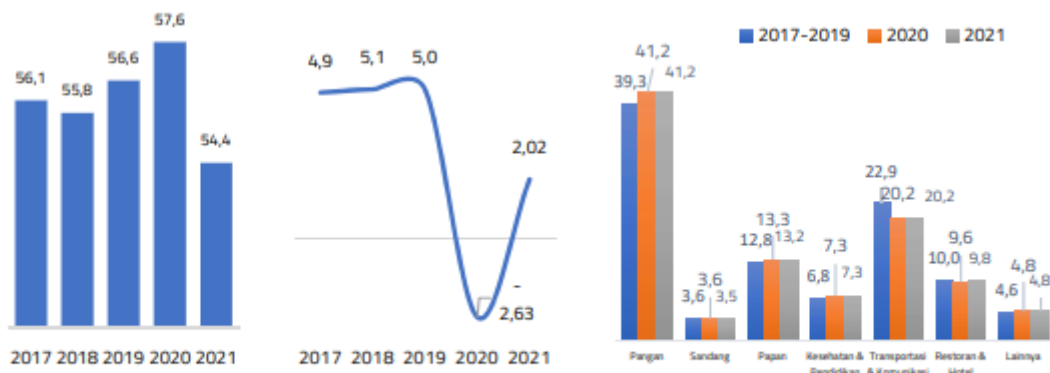
A major challenge emerged in 2020 with the outbreak of the Covid-19 Pandemic. Different from previous crises, the pandemic that started from a health crisis put pressure on the economy, both in terms of supply, demand, and the financial sector. This caused economic growth in 2020 to contract by 2.1 percent, which was the first contraction since the Asian economic crisis in 1997-1998. However, Indonesia's economic growth in 2020 was still higher than that of the Association of Southeast Asian Nations (ASEAN) and G20 countries which experienced quite deep contractions. The recovery process and turning point of national economic activity towards the positive zone at the end of 2020 were mainly driven by the role of the APBN in carrying out its countercyclical function in handling the pandemic and the National Economic Recovery (PEN) program. Indonesia's economic resilience can also be seen from the economy being able to return to pre-pandemic levels in 2021 with positive growth of 3.7 percent. Appropriate handling policies and the adoption of a "new normal" during the pandemic marked by the increasing use of electronic money transactions have encouraged previously restrained public consumption activities. Export levels have returned to pre-pandemic levels supported by the pace of global economic recovery and exports of downstream metal minerals, which have the potential to be a source of new economic growth.

The national economic performance is expected to strengthen further in 2022 and is expected to grow in the range of 4.8 - 5.5 percent. Strengthening investment and exports as well as the continuation of the recovery of public consumption will be the main pillars of growth. This is certainly supported by comprehensive pandemic control efforts, including massive acceleration of vaccination. Moreover, in 2022 there is an opportunity for the Covid-19 pandemic in Indonesia to transition to endemic. In addition, structural reforms also continue to be implemented consistently and comprehensively, in order to strengthen the foundation of the economy by increasing national competitiveness and productivity.

Various risks originating from external and domestic sources need to be continuously anticipated. Potential external risks such as high inflationary pressures and accelerated monetary policy tightening in a number of developed countries such as the US and Europe (European Central Bank/ECB) continue to be monitored. In addition, supply chain disruptions and high energy prices and increasingly heated geopolitical tensions/temperatures, such as the ongoing war between Russia and Ukraine, have the potential to pose risks. The emergence of new variants along with the divergence of global and domestic vaccination coverage is also a risk that needs to be watched out for. The government continues to synergize with other policy authorities in formulating policies that can anticipate the impact of this uncertainty.

Various economic indicators provide signals of continued strengthening of the national economic recovery in early 2022. The impact of the spread of the Omicron variant that had spread in early 2022 on the economy was relatively limited. The Consumer Confidence Index (CCI) in March 2022 was consistently at the confidence level (111). The Retail Sales Index (RSI) grew 8.6 percent (yoy). The manufacturing Purchasing Managers' Index (PMI) is still at the expansion level and the trade balance has again recorded a surplus. The growth in imports of capital goods and raw materials is also still growing high, indicating that manufacturing activity in Indonesia is still increasing. Meanwhile, industrial and business electricity consumption each grew positively.

Household consumption is still the largest contributor to GDP expenditure. The contribution of household consumption during 2017-2019 averaged 56.2 percent of total output (Chart 7). Household consumption growth throughout the period averaged 5.0 percent per year, making it the largest contributor to Indonesia's economic growth. Indonesia's population growth is the main factor influencing household consumption growth. Non-restaurant food and beverage consumption is the largest sub-component, with an average portion of 39.3 percent of total household consumption during normal times. The second largest portion is transportation and communication consumption, which reached 22.9 percent, followed by housing and household equipment consumption (12.8 percent) and restaurant and hotel consumption (10.0 percent).



Sumber: BPS, diolah

Chart 1 (a) Household Consumption Share to GDP (%); (b) Household Consumption Growth (%); (c) Household Consumption Sub-Components (%)

The Covid-19 pandemic has had a significant impact on household consumption. Although household consumption growth contracted by 2.6 percent, its contribution increased to 57.6 percent of total GDP. This is because the portion of other expenditure components has shrunk due to declining investment activities and net exports. Mobility restrictions have caused people to stay at home more, so household consumption patterns have also changed. Consumption related to activities outside the home such as transportation, restaurants and hotels experienced the deepest contraction, namely 9.6 percent and 8.1 percent. The portion of both types of consumption also shrank, respectively to 20.2 percent and 9.6 percent of total household consumption. Meanwhile, consumption related to basic needs such as consumption of food and beverages and consumption of housing and household appliances still grew positively and experienced an increase in portion, respectively to 41.2 percent and 13.3 percent of total household consumption. Consumption directly related to the pandemic, namely health and education consumption, grew by 3.1 percent, in line with that its portion also increased from 6.8 percent to 7.3 percent of total household consumption.

2021 is a turning point for national economic recovery even though the pandemic is not over. Household consumption as the largest component in Indonesia's GDP was able to grow by 2.0 percent. The portion of household consumption to GDP shrank compared to the portion in 2020,

even smaller than the average normal period of 2017 - 2019, which was only 54.4 percent. The decline in the portion of household consumption was due to the national economic recovery being dominated by export performance in GDP. During the 2021 recovery period, the portion of household consumption sub-components was relatively the same as during the 2020 pandemic, except for restaurant and hotel consumption which began to increase to 9.8 percent of total household consumption with a growth rate of 3.9 percent. Meanwhile, transportation and communication consumption, and clothing consumption have not recovered to pre-pandemic conditions. In aggregate, household consumption in 2022 is estimated to grow in the range of 4.8 - 5.3 percent.

Government consumption expenditure (PKP) is an important contributor to economic growth, especially during the crisis period. During the pre-pandemic period (2017-2019), PKP grew by an average of 3.4 percent per year. Significant growth was recorded in 2018 at 4.8 percent, related to the implementation of national agendas such as simultaneous regional head elections, the holding of the Asian Games, and the IMF-WB Annual Meeting. During the Covid-19 pandemic period in 2020, PKP was the only component of GDP expenditure that still grew positively (2.0 percent), reflecting a countercyclical fiscal policy in order to handle the pandemic and prevent a deeper economic contraction. PKP's positive performance is related to the allocation of the PEN program budget for handling health, social protection, and maintaining the sustainability of the business world, especially MSMEs. PKP growth continued until 2021, even reaching 4.2 percent. This is mainly due to the increase in the PEN Program budget to strengthen pandemic handling and national economic recovery. An overview of the PEN Program can be read in Box 1.

PKP growth in 2022 is expected to slow down. As the Covid-19 pandemic conditions improve, the realization of state spending for handling the pandemic in 2022 is expected to decline, especially spending on patient care. In addition, several components of state spending that support PKP have decreased compared to 2021. PKP in the GDP component in 2022 is expected to contract in the range of 2.3 - 1.6 percent.

The growth of Gross Fixed Capital Formation (PMTB) or investment in the 2017-2019 period was above national economic growth. PMTB performance in this period grew by an average of 5.8 percent, above the national GDP average of 5.1 percent, supported by relatively stable domestic economic conditions. Strong PMTB growth was driven by the PMTB building component which contributed more than 70 percent. This was supported by the acceleration of infrastructure project development, especially connectivity and electricity, as well as high investment in machinery and vehicles. However, the decline in global demand and the 2019 political year had an impact on non-building components. This was caused by mining sector investors postponing investment in new machinery and heavy equipment.

The Covid-19 pandemic in 2020 had an impact on the decline in PMTB. In 2020, PMTB contracted by 5.0 percent, one of which was caused by the postponement of several infrastructure projects such as the National Strategic Project (PSN). The restriction policy implemented to prevent the spread of Covid-19 has hampered investors from expanding. However, along with the economic recovery in 2021, the sustainability of infrastructure projects driven by the strengthening of the Central Government's capital expenditure has been able to support investment growth. The mobility restriction policy due to the Delta variant has no effect on the sustainability of PSN development. Fiscal incentives for vehicle purchases and strengthening commodity prices have also encouraged investment in the form of purchases of commercial vehicles and machinery.

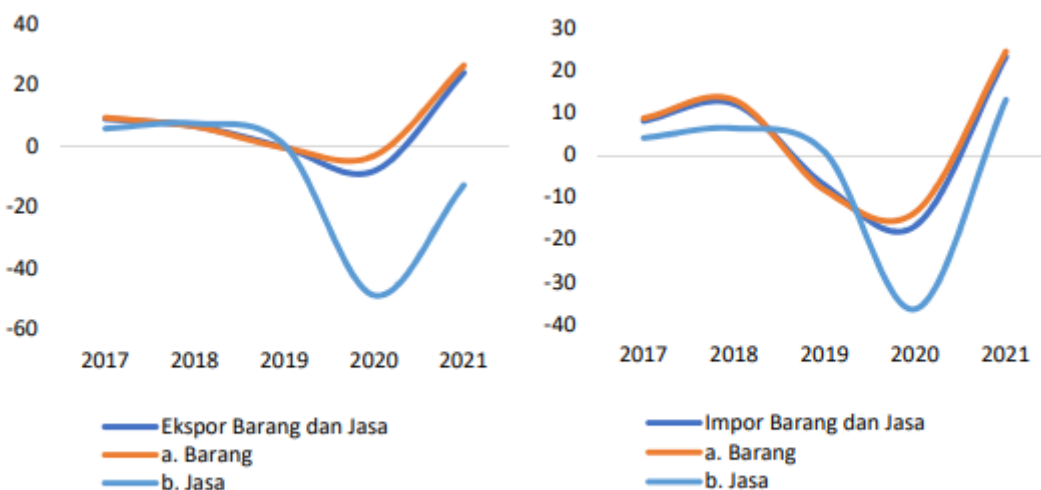
PMTB is projected to grow stronger in 2022. Indonesia's conducive investment climate and increasing ease of doing business support investment performance in 2022, which is projected to grow in the range of 5.4 - 6.0 percent. Acceleration of infrastructure development completion is expected to create equitable development, smooth connectivity and the development of private

investment. This can also be seen from the performance of various investment indicators in early 2022. Cement consumption and imports of capital goods in March 2022 grew 2.5 percent and 30.1 percent (yoy) respectively. In addition, commercial vehicle sales and investment credit were also able to grow by 14.2 percent and 5.0 percent (yoy) respectively.

The trend of strengthening investment activity is projected to continue in 2023. As the economic recovery drives investor and business actors' confidence, investment is projected to be in the range of 6.1 - 6.7 percent. Development activities are expected to remain the main driver of investment performance along with the continuation of priority infrastructure development projects, PSN, IKN and industrialization development. Increased investment needs to continue to be directed at environmentally friendly, technology-oriented and labor-intensive industries, as well as productive sectors through downstreaming of natural resources (SDA). Consistent structural reform steps, improving the quality of human resources (HR) and increasing ease of doing business also help maintain investor confidence in Indonesia's economic prospects.

Indonesia's export and import performance was relatively strong in the period before the pandemic. In 2017-2018, exports of goods and services grew by an average of 7.7 percent, while imports of goods and services grew by 10.1 percent. The strengthening of export growth in that period was driven by improving global demand, especially for downstream mineral products. Export performance in 2019 weakened due to the increasing tension of the trade war between China and the US.

The Covid-19 pandemic has impacted export-import performance in 2020. Total exports were recorded to have contracted by 8.1 percent, and total imports contracted even deeper by 16.7 percent, due to the disruption of production activities and community mobility. Exports and imports of services grew negatively by 48.9 percent and 36.4 percent, respectively. Meanwhile, exports and imports of goods grew negatively by 3.1 percent and 13.5 percent, respectively.



Sumber: BPS, diolah

Chart 3 (a) Export Growth (%); (b) Import Growth (%)

Indonesia's export performance began to improve at the beginning of 2021 in line with the recovery pattern of global and domestic economic activity. The recovery of economic activity in major trading partner countries helped boost Indonesia's export performance. Indonesia's exports in 2021 were recorded to have grown by 24.0 percent, with goods exports growing by 26.4 percent, while service exports still contracted by 12.8 percent. The increase in global commodity prices provided a boost to Indonesia's non-oil and gas exports, which were able to grow by 27.5 percent.

In addition, Indonesia's service exports were still contracting in line with the unrecovered number of foreign tourist visits.

Indonesia's imports also began to recover in 2021, recording growth of 23.3 percent. This was driven by growth in imports of goods and services, which were recorded at 24.6 percent and 13.1 percent, respectively. Imports of goods that grew quite high were dominated by imports of raw materials and capital goods, indicating an increase in domestic production activity. Meanwhile, imports of services grew positively, driven by the need for services related to infocom and rising freight costs.

The recovery in export and import performance is expected to continue in 2022. Indonesia's exports are expected to grow in the range of 10.7 - 11.6 percent, while imports grow in the range of 12.0 - 12.9 percent. Export performance is expected to be driven primarily by increasing demand from major trading partners, while import performance is expected to be related to increasing domestic economic activity. However, the outlook for future export and import performance is overshadowed by the escalation of geopolitical tensions that have implications for disrupting the supply chain. The IMF report (WEO, April 2022) revised down the projection for global trade volume growth in 2022 from the previous 6.0 percent to 5.0 percent.

The domestic economy from the production side also experienced dynamics in facing global challenges. The majority of leading sectors were able to grow steadily in the period before the pandemic, while the rate of expansion of the manufacturing sector was held back in 2019 due to the peak of the global trade war. During the pandemic, the movement of the production sector varied, depending on the sensitivity of the spread of cases to the operational continuity of each sector. Some sectors were able to take advantage of the implementation of the new normal lifestyle, such as sectors related to health and information and communication. Meanwhile, other main sectors such as the manufacturing, trade, and tourism support sectors experienced quite deep pressure, especially due to slowing demand and disruption of global supply.

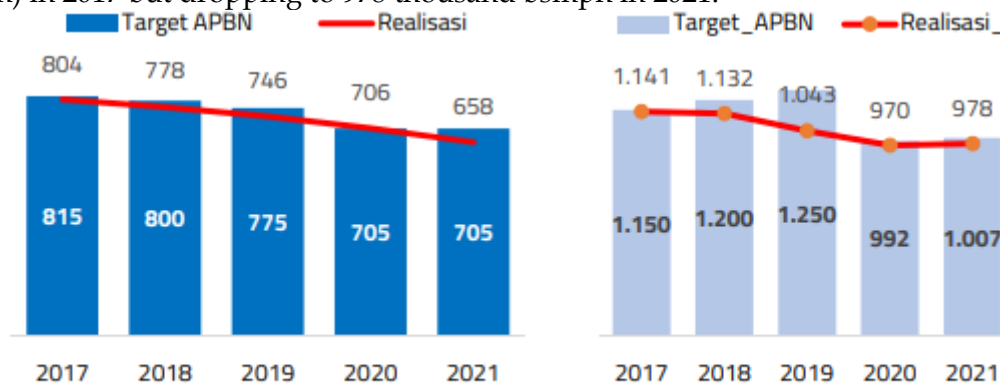
In recent years, the agricultural sector¹ has grown relatively steadily. During the period 2017 - 2019, the agricultural sector grew by an average of 3.8 percent. During the pandemic in 2020, the agricultural sector in aggregate became one of the resilient sectors, able to grow positively by 1.8 percent, and absorb a workforce of around 38.2 million people. The growth of agricultural sector exports was recorded at 6.8 percent from the previous year with a contribution of 6.6 percent to total exports of goods. The growth of the agricultural sector slowed down, to 1.8 percent in 2021. Several factors that influenced it included less conducive weather conditions, especially in the food crops sub-sector and the less than optimal performance of the forestry and fisheries sub-sector. Meanwhile, there was an increase in performance in the plantation sub-sector due to the increase in demand and global commodity prices.

In 2022, the agricultural sector is expected to grow stronger. The estimated strengthening performance of the agricultural sector is mainly supported by increasing demand and prices for plantation commodities, especially palm oil. In addition, the expansion of this sector is driven by improvements in the management of the fisheries sub-sector through a quota capture system in 4 fisheries industry zones and the implementation of the National Fish Logistics System (SLIN). However, there are still downside risks in the agricultural sector, namely weather factors and climate change, as well as issues related to land use that can affect plantation crop production.

The performance of the mining and quarrying sector improved along with the increase in commodity prices, especially minerals. In 2017, the mining and quarrying sector grew by 0.7 percent, then increased slightly in 2019 by 1.2 percent. However, during the pandemic in 2020, the mining and quarrying sector contracted by 2.0 percent due to the decline in global demand for energy commodities, especially oil and gas and coal. In 2021, the performance of the mining and quarrying sector was able to grow by 4.0 percent. This improvement in performance was driven by recovering

global demand and increasing commodity prices. In addition, the downstreaming policy of major metal minerals such as bauxite, tin, nickel, and copper through the operation of smelters also contributed to the performance of the mining and quarrying sector. In 2022, the mining and quarrying sector is expected to grow slightly slower in line with the normalization of commodity prices.

The oil and gas mining sub-sector is still facing structural constraints so that the national oil and gas lifting performance is still in a downward trend. Crude oil lifting in 2017 reached 804 thousand barrels per day (bpd) and continued to decline to only 658 thousand bpd in 2021. A downward trend also occurred in gas lifting, after reaching 1.1 million barrels of oil equivalent per day (bsmph) in 2017 but dropping to 978 thousand bsmph in 2021.



Sumber: SKK Migas dan Kemenkeu

Chart 4 (a) Oil Lifting Performance (thousand bpd); (b) Natural Gas Lifting Performance (thousand bsmph)

The downward trend in oil and gas lifting is mainly related to production, investment, and regulatory and bureaucratic obstacles. Until now, oil and gas production still depends on old fields with low productivity (mature). Most onshore fields have also entered a declining phase with a fairly high natural decline rate. Investment in new exploration is hampered by high operating costs and the relatively low competitiveness of Indonesia's upstream oil and gas investment, thus limiting the discovery of new production sources. The need for investment in new exploration requires special attention. This is considering that Indonesia's oil and gas reserves are estimated to be around 70 percent in offshore and deepwater areas, requiring very large investments. Meanwhile, bureaucratic and regulatory obstacles are reflected in the realization of drilling which is being held back due to delays in the final investment decision (FID) in 2021, as well as problems with land acquisition/leasing for access and licensing that are still occurring.

Oil and gas lifting in 2022 is expected to increase slightly. Through the evaluation of the plan of development (POD), currently oil and gas fields that were previously uneconomical can be encouraged to immediately produce in order to take advantage of the momentum of rising world oil prices. In line with global developments and various mitigation efforts against production constraints, Indonesia's oil and gas lifting performance in 2022 is expected to still be in accordance with the assumptions of the 2022 State Budget, namely 703 thousand bpd and 1.03 million bpd, respectively.

The construction sector has grown relatively strongly in recent years, but has been significantly impacted by the Covid-19 pandemic. In the 2017-2019 period, the construction sector contributed an average of 10 percent and grew an average of 6.2 percent per year. The performance of the construction sector is greatly influenced by infrastructure development by both the private sector and the government. The development of infrastructure projects that have been the focus of the government in recent years has also driven economic growth through the performance of the

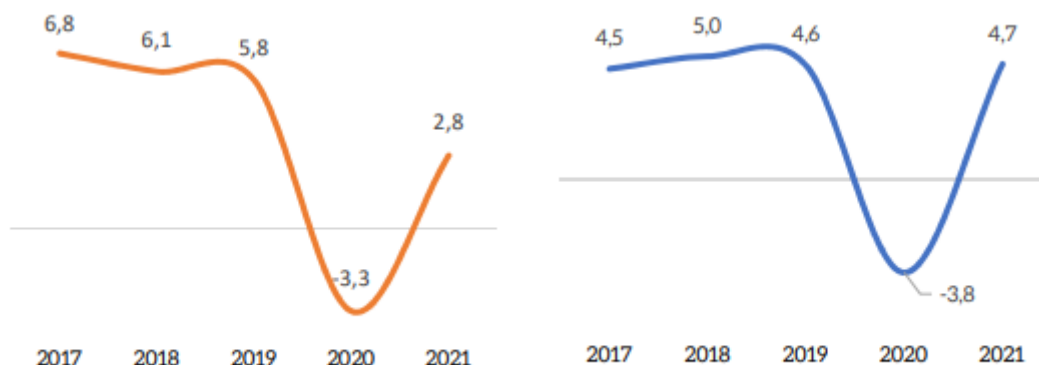
construction sector. The growth of the construction sector from 2017 to 2019 was above national economic growth. The Covid-19 pandemic had a significant impact on the performance of the construction sector. In 2020, the construction sector contracted by 3.3 percent. However, in 2021 the construction sector was able to grow positively by 2.8 percent. In 2022, it is estimated that it will continue to improve supported by the acceleration of the development of various government infrastructure. The completion of the National Strategic Projects (PSN) and other national priority projects is expected to accelerate the growth of the construction sector. Private sector capital expenditure, which was previously held back, is expected to increase along with the strengthening of the economic recovery.

The growth of the national manufacturing sector in recent years has slowed slightly due to the global trade war. The growth performance of the manufacturing sector in 2017-2018 was recorded at 4.3 percent, below national economic growth. In 2019, the manufacturing sector grew slowly at a rate of 3.8 percent, especially related to export-oriented sectors with destinations to China, such as the rubber processing, machinery, and coal sectors, each of which grew at negative levels in 2019.

The manufacturing sector was significantly impacted by the Covid-19 pandemic in 2020, but recovered in 2021. The manufacturing sector was recorded to have contracted by 2.9 percent in 2020, mainly due to disruptions in the supply of raw materials and capital goods and weakening domestic consumption due to the implementation of restrictions on community mobility. However, the manufacturing sector was able to grow positively by 3.4 percent in 2021 in line with improving global economic performance, the business world's ability to adapt during the pandemic, and government stimulus. The economic recovery of trading partner countries has driven improvements in demand for output from the machinery, coal processing, wood, furniture, and paper industries. Meanwhile, the basic metal processing sector, including nickel, which is believed to be one of the drivers of future economic growth, was able to continue its high growth rate by growing 11.5 percent in 2021. In aggregate, manufacturing sector output was also able to return to pre-pandemic levels.

The strengthening of manufacturing sector performance is expected to continue in 2022. Several early indicators of manufacturing sector activity showed signs of strengthening in early 2022. Until April 2022, Indonesia's manufacturing PMI was still in the expansionary zone. Meanwhile, imports of raw materials and capital goods throughout the first quarter of 2022 also experienced growth. In addition, until March 2022, the industrial sector's electricity consumption indicator was also able to grow by 15.7 percent. The increasingly strong domestic consumption activity will also encourage industrial players to further increase their production capacity. Various incentives and support for PEN 2022 policies and strengthening support for bank credit financing will also be catalysts for strengthening the performance of the manufacturing sector in 2022. Furthermore, downstream policies and strengthening national competitiveness and productivity through the implementation of the structural reform agenda are expected to contribute greatly to encouraging the strengthening of the performance of the manufacturing sector.

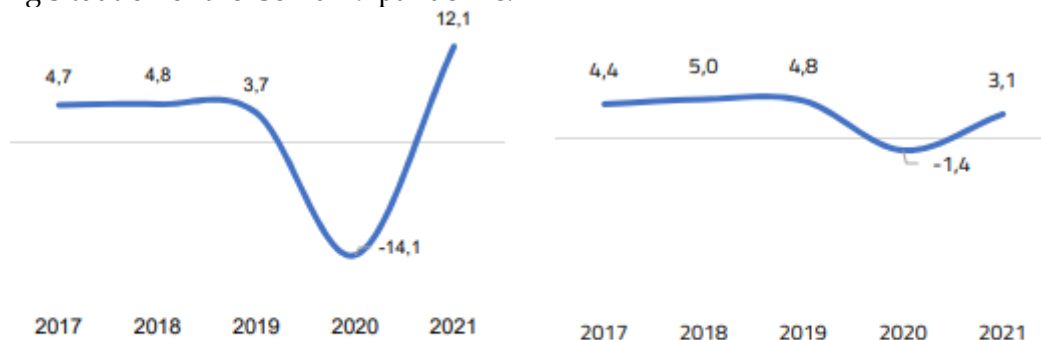
In recent years, the performance of the trade sector, which is one of the main contributors to the national economy, has been on a strengthening trend. The trade sector grew by an average of 4.7 percent in the period 2017-2019, driven by relatively strong domestic demand, especially in 2018 related to the implementation of two major international agendas, namely the XVIII Asian Games and the IMF-WB annual meeting. However, the increasing tension of the trade war between the US and China in 2019 had an impact on slowing down the activity of the trade sector.



Sumber: BPS, diolah

Chart 5 (a) Development of Construction Sector Growth (%); (b) Growth of the trade sector (%)

After being hit by the Covid-19 pandemic, the performance of the trade sector in 2021 has strengthened. The trade sector was able to grow by 4.7 percent after recording a contraction of 3.8 percent in 2020 in line with improving public mobility. This growth was driven by the car, motorcycle, and repair trade sub-sector which grew by 12.1 percent in 2021, closely related to the PPnBM incentive policy which drove a surge in car sales. The wholesale and retail trade sub-sector was also able to grow positively by 3.1 percent, after contracting by 1.4 percent in 2020, in line with the improving situation of the Covid-19 pandemic.



Sumber: BPS, diolah

Chart 6 (a) Growth of the Sub-Sector of Car, Motorcycle and Repair Trade (%); (b) Growth of the Sub-Sector of Wholesale and Retail Trade (%)

The performance prospects of the trade sector in 2022 are expected to strengthen further. The estimated strengthening of the trade sector in 2022 is in line with the strengthening of consumer perceptions of economic recovery, the development of much better community mobility, and continued support for fiscal incentives. In addition, the strengthening of the trade sector is also driven by the community's purchasing power which is still maintained.

The tourism support sector in 2020-2021 was the sector most affected by the Covid-19 pandemic. Restriction policies in various countries to control the spread of the Covid-19 virus have caused foreign tourist visits to decline sharply from 16.1 million in 2019 to only 4.0 million in 2020. In 2021, foreign tourist visits even declined sharply again, reaching only 1.5 million visits, or a decrease of 61.6 percent compared to the number of foreign tourist visits in 2020. The significant decrease in foreign tourist visits has of course had a major impact on closely related sectors, such as accommodation and food and beverage providers (restaurants) and the transportation sector. In

2020, the accommodation and food and beverage providers experienced contractions of 24.5 percent and 6.9 percent respectively, while the transportation sector contracted by 15.0 percent.

The government continues to strive to encourage the recovery of the national tourism industry. These efforts are carried out through a number of programs, including the development of tourist villages, assistance or incentives for tourism business actors, certification of tourist attractions according to Cleanliness, Health, Safety, and Environment Sustainability (CHSE) standards, and the provision of Covid-19 vaccination facilities at tourist locations. In addition, positive developments in handling Covid-19 will encourage the recovery of community mobility and tourism activities.

In the past five years, the inflation rate has been controlled at a relatively low level. In the period 2017 - 2019, the inflation rate was maintained at around 3.0 percent, in accordance with the previously set target². The relatively low inflation rate was influenced by controlled core inflation, administered prices, and volatile foods. The maintained movement of core inflation is closely related to the relatively stable exchange rate and inflation expectations. Meanwhile, the movement of administered prices is also relatively stable in line with the direction of government policy in supporting people's purchasing power. Conducive weather conditions and improvements in food governance and distribution have also been able to maintain the stability of volatile foods.



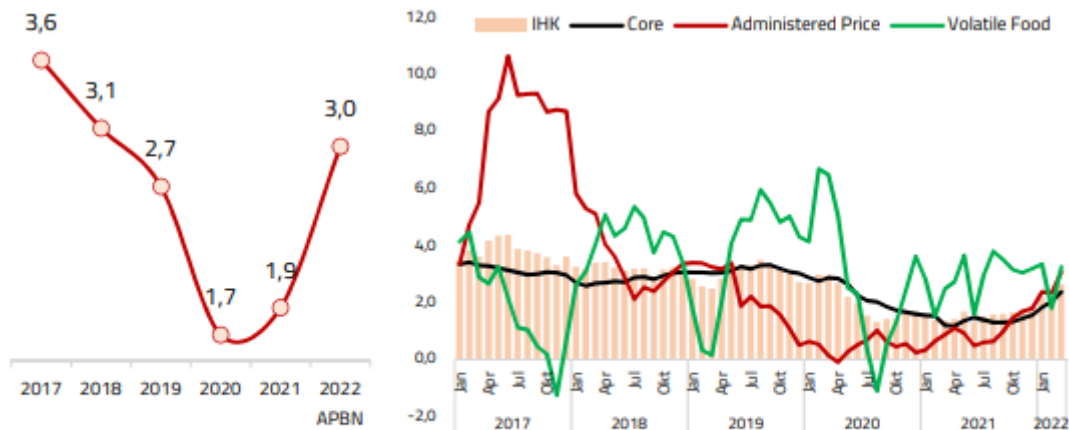
Sumber: BPS, diolah

Chart 7 (a) Growth of Accommodation and Food Sector (%); (b) Growth of Transportation Sector (%)

The inflation rate throughout 2020-2021 experienced a significant slowdown. The low inflation rate in 2020-2021 was due to the decline in domestic demand due to the Covid-19 pandemic. The inflation rate in both years was recorded at 1.7 percent and 1.9 percent, respectively, reflecting the still weak socio-economic activity of the community. The government implemented a social restriction policy as an effort to deal with the pandemic. As a result, the core component inflation rate moved relatively limited along with the decline in public consumption activity. The movement of volatile food was also relatively stable during the pandemic, although there was slight pressure due to weather and distribution constraints. Inflation of the administered price component also tended to be at a low and stable level during the pandemic due to controlled domestic transportation and energy inflation. Energy prices were still maintained unchanged as a form of government support to maintain people's purchasing power.

The success of controlling the inflation rate cannot be separated from the strong coordination between the Central and Regional Governments with Bank Indonesia (BI). Cooperation and synergy are increasingly strengthened to create an appropriate and responsive policy mix in supporting inflation control according to the dynamics of the national economy. Synergy of inflation control policies is carried out through the National Inflation Control Team (TPIN). This aims to achieve the

national inflation target that has been stated in the inflation target. In detail, the strategic programs are arranged in the 4K corridor, namely Price Affordability, Supply Availability, Smooth Distribution, and Effective Communication. These elements describe all aspects of inflation control from the production, consumption, and distribution sides. In addition, the interaction between Government policies and the real sector also needs to be maintained through effective communication so that expectations are maintained.



Sumber: BPS dan Kemenkeu

Chart 8 (a) Development of Inflation Rate (% , yoy); **(b)** Development of Component Inflation (% , yoy)

The inflation rate in 2022 is expected to increase in line with the increase in global commodity prices, especially energy and food commodities. Commodity prices increased sharply in early 2022, especially the increasing geopolitical tensions that have driven up domestic prices, especially food and energy. As of March 2022, the inflation rate has reached 2.6 percent (yoy) in line with strengthening domestic demand and the spillover effect of the increase in global commodity prices. Several food commodities, such as cooking oil, wheat flour, soybeans and corn have experienced price increases. In addition, the high price of oil and natural gas in the global market has the potential to drive up domestic energy prices. The government and BI will strengthen policy synergy to maintain controlled inflation in 2022 within the predetermined inflation target range, namely 3.0 ± 1.0 percent.

The policy strategy taken by TPIN is directed to anticipate the impact of the risk of rising global commodity prices. Various strategies are formulated as an effort to maintain the inflation rate so that it can be achieved according to its target. National inflation control measures must encourage strengthening policy coordination to maintain macroeconomic stability and support the maintenance of the momentum of national economic recovery. Volatile food inflation needs to be maintained in the range of 3.0 - 5.0 percent (yoy) even amidst the challenges of rising global food commodity prices, as well as the use of technology and improvements in connectivity, especially on national religious holidays (HBKN), through efforts to maintain the availability of supply and smooth distribution. All of these policy steps need to be harmonized through effective public policy communication and synergy to keep inflation expectations positive.

CONCLUSION

The Indonesian economy has shown good resilience in facing global and domestic challenges. After experiencing a contraction due to the COVID-19 pandemic, the Indonesian economy has recovered and is expected to continue to grow positively. This recovery is supported by various

factors such as investment, exports, domestic consumption, and appropriate government policies. Key economic sectors have also shown mixed performance, with some sectors able to grow strongly while others still face challenges. However, Indonesia still needs to be aware of various risks such as inflation, global uncertainty, and structural challenges. With good management and effective policy coordination, the Indonesian economy is expected to continue to grow and provide prosperity for the community.

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