Policy Trends for Maintaining Macroeconomic Stability in Indonesia

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Abstract. Economic policy is a series of actions and steps the government takes to regulate and direct economic activity in a country. In the last few decades, economic policy trends have significantly changed in response to changes in the economic environment and global challenges. The policy trend to maintain macroeconomic stability in Indonesia is a significant concern for the government and policymakers in this country. This study aims to explain the policy trend of maintaining macroeconomic stability in Indonesia by looking at the direction and economic issues of the government's focus. This study uses a qualitative descriptive approach using deductive reasoning. Data were obtained through literature review and content analysis originating from government publications/reports, government websites, official portals of international organizations, scientific journals, and mass media articles relevant to the topic of study. The research results were obtained from 2000 to 2021. During this period, macroeconomic policy trends in Indonesia reflect the government's efforts to maintain economic stability, increase competitiveness, and face global economic challenges. Macroeconomic stability policy is essential in maintaining stability, while fiscal and monetary policies have different impacts on controlling inflation. Variables such as interest rates, investment, exports, GDP, and inflation maintain Indonesia's economic stability.

Keywords: Policy, Stability, Macroeconomics, Growth, Economy.

1 Introduction

Economic policy is a policy taken by the government in the economic field to spur the wheels of the people's economy. The government is expected to be able to provide direction or guidance to the community regarding the economy because, in our country, the community is the government's partner in running the wheels of the economy, so the goal that this nation aspires to is the welfare of a just and prosperous people based on Pancasila and the 1945 Constitution. (Gilarso,2004:225) says that economic policy is a method taken or action taken by the government to regulate national economic life in order to achieve specific goals (Minarsih,2011) also says that policy is carried out by providing injections of funds for

AISTEEL 2023, September 19, Medan, Indonesia

DOI 10.4108/eai.19-9-2023.2340426

domestic industries that have a comparative advantage in the international world, selecting imported goods that will enter Indonesia/imposing high import duties on goods that can already be self-produced. Based on this statement, Economic policies often involve complex decision-making and consideration of various factors, including the current state of the economy, long-term objectives, and the social and political impacts that policies may have.

Economic policy has a significant role in maintaining the economic stability of a country. Excellent and appropriate policies can help control economic fluctuations, prevent financial crises, and create an environment conducive to sustainable economic growth such as controlling inflation, stable economic growth, controlling unemployment, financial sustainability, and economic policies can also play a role in creating an equitable distribution of income fairer with the adoption of the right policies. The government can reduce social and economic disparities and ensure that the benefits of economic growth are felt by all people, not just a few people or groups. Economic policy is essential in state order as economic stabilization (Ardiansyah, 2020). Excellent economic policies must consider various social, environmental, and political factors and ensure that stable economic growth is supported by social equity and a sustainable environment.

Economic policy users use various tools and approaches to implement economic policy. This economic policy can be applied in analysis and evaluation, goal setting, policy formulation, policy implementation, monitoring, and evaluation. Users of economic policies must maintain a balance between short-term and long-term goals and consider the implemented policies' social, environmental, and political impacts. In other words, master economic policies to achieve economic stability (Lieonov, 2018).

Economic stability refers to a condition in which the economy of a country or region is relatively stable and does not experience significant fluctuations or disruptive disturbances, including stability in various economic indicators, including inflation, economic growth, unemployment, financial stability, and trade balance. Economic stability is important because it creates an environment conducive to sustainable economic growth, improves welfare, and minimizes economic uncertainty. Economic stability can also create investor confidence, encourage investment, and strengthen overall economic sustainability. The level of economic growth and investment has a positive reciprocal relationship. The greater the investment of a country, the greater the level of economic growth that can be achieved (Kurniawan, 2022).

The policy has a close relationship with macroeconomic stability. Appropriate economic policies can contribute significantly to creating and maintaining macroeconomic stability. As seen, monetary policy held by the central bank has a vital role in controlling inflation, fiscal policy and monetary policy can affect economic growth, fiscal policy that encourages economic growth and creates new jobs can help reduce unemployment, effective financial regulatory policies can play a role important in maintaining the stability of the financial sector and appropriate trade policies can affect a country's trade balance. Policies that support exports reduce trade barriers, and promote competitiveness can help achieve a healthy trade balance. Thus to see the direction and policy issues in macroeconomic stability in Indonesia, it is important to follow developments in economic issues that are the focus of the Indonesian government and monetary authorities. Issues such as economic growth, inflation, currency stability, budget deficit, trade balance, unemployment, and strategic sectors can provide an overview of the government's policy issues. Those are directly proportional to the article

(Saputro, 2021), which states that macroeconomic stability, strategic industrial growth, and security stability simultaneously influence economic growth.

1.1 Macroeconomic Policy in Indonesia

Afandi, R., & Sulistiyo, Y. (2018). The Effect of Macroeconomic Policy on Economic Growth in Indonesia. Journal of Economics and Sustainable Development, 9(10), 86-94. This study looks at the relationship between macroeconomic policy and economic growth in Indonesia, focusing on fiscal and monetary policies and other factors that influence economic growth. In this case, the author seeks to understand the complexity and dynamics of economic growth in Indonesia more comprehensively by providing a better understanding of how fiscal and monetary policies affect overall economic conditions through economic factors.

Ardiyanto, M. (2019). Macroeconomic Policy and Economic Performance in Indonesia. Journal of Indonesian Economy and Business, 34(2), 134-153. This study analyzes the relationship between macroeconomic policies, such as fiscal and monetary policies, and economic performance in Indonesia, including economic growth, inflation, and economic inequality. This paper believes that macroeconomic policies and economic performance are complex and influenced by many factors, including global conditions, political stability, and the dynamics of economic sectors.

Nugroho, B. A., & Yusgiantoro, H. (2019). The Role of Macroeconomic Policy in Accelerating Indonesia's Economic Growth. Journal of Indonesian Economy and Business, 34(1), 36-55. This study examines the role of macroeconomic policies, such as fiscal and monetary policies, in promoting economic growth in Indonesia by considering other factors, such as political stability and structural policies. The discussion acknowledged that other factors, such as political stability and structural policies, also play an essential role in influencing economic growth. Political solid stability and policy consistency can provide a conducive environment for sustainable investment and economic activity. In addition, supportive structural policies, such as structural reforms, infrastructure development, and business climate improvement, can also create a solid foundation for long-term economic growth.

Effendi, Y. J., & Anggraeni, L. (2020). The Impact of Macroeconomic Policies on Economic Growth in Indonesia. International Journal of Economics, Commerce, and Management, 8(6), 195-205. This study examines the impact of macroeconomic policies, including fiscal and monetary policies, on economic growth in Indonesia by using panel data analysis which provides a more comprehensive picture of the relationship between macroeconomic policies and economic growth in Indonesia.

Rini, S. R., & Hariyanto, E. (2021). The Effect of Macroeconomic Policy on Economic Stability: Evidence from Indonesia. Journal of Economics, Business, and Accountancy Ventures, 24(1), 88-98. This study analyzes the impact of macroeconomic policies, including fiscal and monetary policies, on economic stability in Indonesia using time series data. The goal is to understand how these policies affect economic stability in Indonesia by identifying how fiscal and monetary policies contribute to economic stability in the context of inflation, unemployment rates, currency stability, or other indicators that describe the overall economic situation.

With the analytical framework discussed above, it can be stated that understanding the complexity and dynamics of economic growth in Indonesia more comprehensively, Macroeconomic policies and economic performance are influenced by many factors, The critical role of political stability and structural policies, A more comprehensive picture of the relationship between macroeconomic policies and economic growth, Understanding the impact of macroeconomic policies on economic stability. These arguments illustrate the importance of understanding the relationship between macroeconomic policies and economic growth in Indonesia and other factors that influence overall economic performance. That can be a solid foundation for making future more effective and sustainable economic policies.

2 Method

The analysis in this paper adopts a qualitative descriptive approach using deductive reasoning. The author will make comparisons and examine policy trends that have the potential to maintain macroeconomic stability in Indonesia. Data were obtained through literature review and content analysis originating from government publications/reports, government websites, official portals of international organizations, scientific journals, and mass media articles relevant to the topic of study. Analysis techniques regarding policy trends to maintain macroeconomic policies in Indonesia are carried out in the following stages:

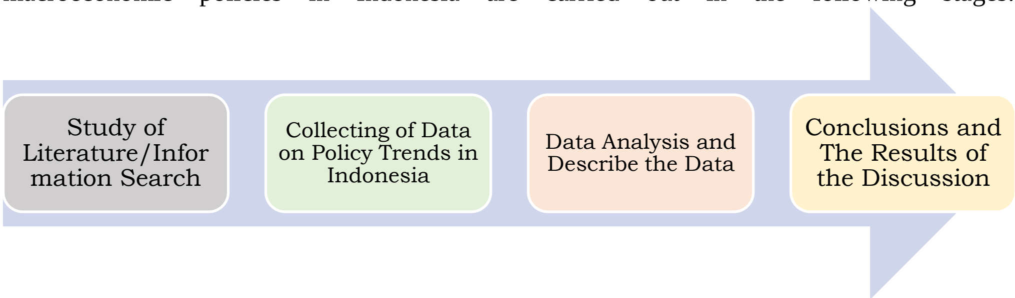

Fig. 1. States of Analysis Techniques.

3 Results and Discussion

The Indonesian government has conducted various studies related to economic policy trends to identify challenges and opportunities in developing the country's economy. The study involved various government agencies, such as the Ministry of Finance, the Ministry of National Development Planning/National Development Planning Agency (Bappenas), Bank Indonesia, and economic research institutions. The review of policy trends includes (1) Challenges and opportunities faced, as well as formulating economic policy priorities to achieve national development goals, (2) Fiscal policy studies through evaluating budget policies, mapping potential revenues, analyzing fiscal risks, and assessing the impact of fiscal policies on economic growth and macroeconomic stability, (3) Economic and financial stability studies can be seen through domestic and global economic conditions, financial sector supervision, and appropriate monetary policy assessments, (4) Trade policy analysis is seen through increasing export competitiveness, balancing the trade balance, and strengthening the position Indonesia within the framework of regional and international cooperation.

Good macroeconomic stability is inseparable from economic policies to spur the wheels of the people's economy. The government is expected to be able to provide direction or guidance to the community regarding the economy because, in our country, the community is the government's partner in running the wheels of the economy, so the goal that this nation aspires to is the welfare of a just and prosperous people based on Pancasila and the 1945 Constitution. Economic policies are expected to accelerate development in the economic sector and provide a strong foundation for sustainable economic development based on a people's economic system.

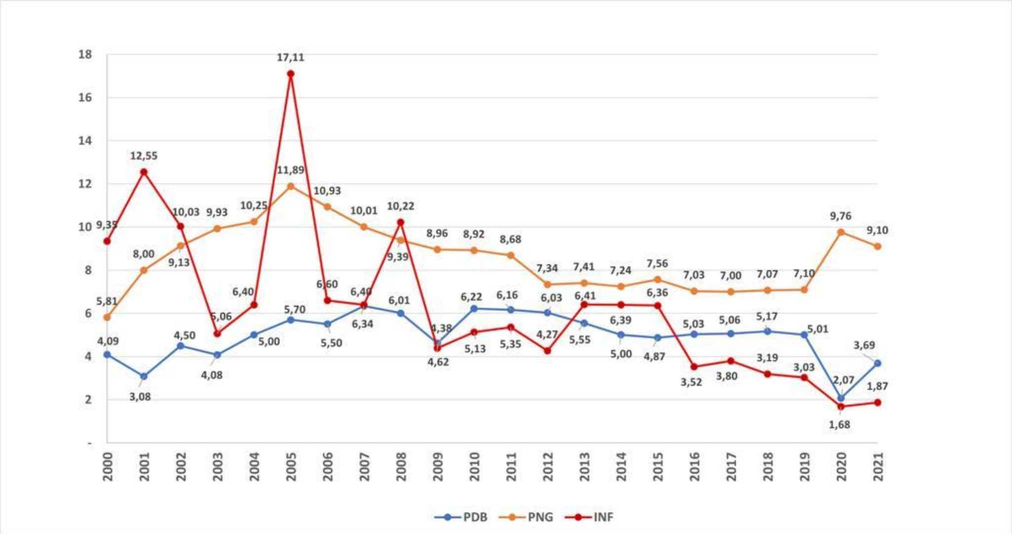

Fig. 2. Graph of GDP, Unemployment, Inflation 2000-2021

Based on the table above, we can identify trends in macroeconomic policies in Indonesia based on the variables of economic growth, inflation, and unemployment from 2000 to 2021 as follows: 2000: The government focused on stabilizing the economy after the 1997-1998 monetary crisis by keeping inflation low and stabilizing the exchange rate rupiah. 2001-2003: Economic recovery efforts were made by continuing structural reforms, improving the investment climate, and recovering the financial sector. 2004-2007: The government implemented infrastructure development programs and tax reforms to encourage economic growth. 2008-2009: Responding to the global financial crisis by implementing fiscal and monetary stimulus policies to maintain economic growth. 2010-2013: Focus on macroeconomic stability by maintaining low inflation, controlled budget deficits, and increased economic competitiveness. 2014-2015: A series of structural reforms were introduced, including in the energy sector and subsidies, to improve fiscal efficiency and sustainability. 2016-2017: Efforts were made to increase state revenue by continuing tax reform, including introducing the Tax Amnesty Policy Law. 2018-2019: Focus on increasing investment and exports by strengthening the investment climate and improving the trade structure. 2020: Response to the COVID-19 pandemic by implementing comprehensive economic stimulus policies, including tax breaks, wage subsidies, and social protection programs. The year 2021: The government focuses on post-pandemic economic recovery by continuing the fiscal stimulus program, launching a national economic recovery program, and accelerating the implementation of infrastructure projects. From 2000-2021, macroeconomic policy trends in Indonesia reflect the government's efforts to maintain economic stability, increase competitiveness, and face global economic challenges.

In 2022, the government's macroeconomic policies were quite effective in increasing the market share of Islamic banking in Indonesia. The transfer of Hajj funds to Islamic banks has contributed considerably to increasing market share. In contrast, the merger of three state-owned Islamic banks into BSI, which is only one year old, still needs to be considered adequate. However, the potential for BSI will significantly contribute to increasing the market share of Indonesian Islamic banks, at most not at the age of five in 2025. (R Yusuf, 2022). Different monetary frameworks have different attitudes toward cyclicity effects. Monetary policy inflation effectively targeting stabilizes inflation variability and exchange rate variability when the policy is countercyclical. When policies are procyclical, inflation-targeting monetary policies cannot significantly stabilize inflation and exchange rate variability.

The Federal Fund Rate positively and significantly affects economic growth in Indonesia, the Philippines, and Thailand. The Federal Fund Rate has a positive and significant effect on inflation in Indonesia and Thailand, while for the Philippines, it has a negative and significant impact (Choirunnisah, 2021). Macroeconomic stability does not directly aim at controlling economic growth but focuses on maintaining the stability of economic factors that can affect this growth. Although macroeconomic stability policies do not directly control economic growth, maintaining controlled inflation, monetary stability, fiscal sustainability, and exchange rate stability creates conditions that support sustainable economic growth. The government needs to consider macroeconomic stability policies to achieve balanced and sustainable economic growth. So based on the results of the VECM test on the effectiveness of fiscal policy and monetary policy in controlling inflation for the 1984-2019 period, it is known that fiscal policy has greater effectiveness than monetary policy in controlling inflation (Paramita, 2021). policy variable (base money) best contributes to explaining exchange rate fluctuations. Then it was emphasized that the shock of the policy variable was responded to by the exchange rate more quickly than other macroeconomic variables. (SE Umi Julaihah, 2008).

Macroeconomic stability policies have a broad and vital impact on the Indonesian economy. By maintaining inflation stability, high economic growth, investor confidence, a balanced balance of payments, financial system stability, and improving people's welfare, Indonesia can achieve the goal of sustainable and inclusive economic development. Interest rate variables, investment, exports, gross domestic product, and inflation maintain Indonesia's economic stability (Novalina, 2017). Economic growth and broad money variables positively and significantly affect inflation in ASEAN-5. On the other hand, the narrow money variable has a negative and insignificant effect on inflation in ASEAN-5.

Meanwhile, the exchange rate variable has a positive but not significant effect on inflation in ASEAN-5 (Adekantari, 2022). Monetary policy instruments and economic stability in Indonesia show a one-way causal relationship between inflation, interest rates, and economic growth in Indonesia. This relationship occurs because the rise and fall of inflation and interest rates will determine the rise and fall of economic growth. Meanwhile, the money supply has no causal relationship with economic growth (Angraini, 2021).

Macroeconomic stability policies can have an impact on the unemployment rate in a country. Through the right policies, governments can create an economic environment that supports reducing the unemployment rate and promotes job creation. The relationship between macroeconomic stability policies and the unemployment rate is complex. It can be influenced by other factors such as economic growth, industrial structure, employment policies, and global market conditions. Therefore, a comprehensive policy approach that considers these various aspects will more effectively control the unemployment rate.

The primary sources for economic growth are investments that can improve the quality of capital or human and physical resources, which in turn succeed in increasing the number of productive resources and reduce the productivity of all resources through discoveries, innovations, and technological progress. Based on the explanation above, entrepreneurship can affect Indonesia's economic growth level. Over time, it is hoped that it will improve the Indonesian economy and reduce unemployment (Mutiarasari, 2018). The effects of monetary and fiscal policy variables on inflation, economic growth, and the unemployment rate in Indonesia show that (1) interest rate variables significantly adversely affect inflation in the long term. Meanwhile, in the short term, the interest rate variable positively and significantly affects inflation. (2) Government spending in the long and short term does not significantly affect inflation. (3) Interest rates, both in the long and short term, negatively and significantly affect economic growth. (4) Government spending positively affects economic growth but is only significant in the long run. (5) Interest rates have a significant positive effect on the unemployment rate only in the long term, whereas, in the short term, the negative effect is insignificant. (6) Government spending has a negative but insignificant effect on the unemployment rate both in long-term and short-term conditions (Juneldi, 2022).

Based on the consistency of macroeconomic policies in Indonesia, effectively inflation-targeting monetary policies stabilize inflation and exchange rate variability when policies are countercyclical. However, when policies are procyclical, inflation-targeting monetary policies cannot significantly stabilize inflation and exchange rate variability. Macroeconomic stability policies do not directly control economic growth. However, these policies create conditions that support sustainable economic growth by maintaining controlled inflation, monetary stability, fiscal sustainability, and exchange rate stability.

The influence of monetary and fiscal policy variables on inflation, economic growth, and the unemployment rate by looking at interest rate variables has a different effect on inflation in the long and short term. Government spending does not significantly affect inflation in the long and short term but has a negative and significant effect on economic growth. In contrast, government spending has a positive but insignificant effect in the long term, and interest rates have a positive and significant effect on the unemployment rate in the long term. However, the effect is negative but not significant in the short term, and government spending has no significant effect on the unemployment rate in both the long and short term.

Based on the social and political context related to the research results above, it is essential to remember that social and political aspects have a complex influence on economic policies and results. Societal needs, political preferences, and government development goals can influence policy implementation. Therefore, the evaluation of macroeconomic policies also needs to consider relevant social and political aspects.

From the findings presented, several global and regional trends can be compared with some of the similarities and differences between the findings presented. However, macroeconomic policies, including monetary and fiscal policies, have a significant role in maintaining economic stability, controlling inflation, and influencing economic growth and the unemployment rate in Indonesia.

4 Conclusion

Based on the results and discussion, it can be concluded that (1) macroeconomic stability policies are essential in maintaining Indonesia's economic stability. Although not directly controlling economic growth, macroeconomic stability policies by keeping inflation under control, monetary stability, fiscal sustainability, and exchange rate stability create conditions that support sustainable economic growth, (2) Fiscal policy has greater effectiveness than monetary policy in controlling inflation in Indonesia during the 1984-2019 period, (3) Base money policy variables have the best contribution in explaining exchange rate fluctuations, and shocks to policy variables are responded to by the exchange rate more quickly than other macroeconomic variables, (4) Interest rate variables, investment, exports, gross domestic product (GDP), and inflation contribute to maintaining Indonesia's economic stability. (5) Economic growth and broad money variables have a positive and significant effect on inflation in ASEAN-5, while little money has a negative but insignificant effect on inflation. The exchange rate variable has a positive but insignificant effect on inflation in ASEAN-5, (6) There is a one-way causality relationship between inflation, interest rates, and economic growth in Indonesia. Rising and falling inflation and interest rates will determine the ups and downs of economic growth. The money supply has no causal relationship with economic growth.

The analysis results were also obtained from 2000 to 2021; macroeconomic policy trends in Indonesia during this period reflect the government's efforts to maintain economic stability, increase competitiveness, and face global economic challenges. Macroeconomic stability policy is essential in maintaining stability, while fiscal and monetary policies have different impacts on controlling inflation. Variables such as interest rates, investment, exports, GDP, and inflation maintain Indonesia's economic stability.

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