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Policy Analysis and Models of Strengthening the Regional Economy Post Covid 19 in North Sumatra Province

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ABSTRACT
This study aims to see how strategic policies can be carried out in meeting the regional economy after the COVID-19 pandemic, both from fiscal strategy and monetary strategy. This research is a field/empirical research with a quantitative approach based on primary and secondary data. The population of this study is all State and Private Universities in North Sumatra Province. For the Regional Government represented by the Statistical Management Agency, the sampling technique is based on judgment Sampling, namely population members are selected based on the consideration of the ease of data collection by the researcher. The results of the research and the results of the analysis show that fiscal policy and monetary policy affect the strengthening of the economy, It is known that fiscal policy affects the strengthening of the economy more than monetary policy, this indicates that the government must pay attention to fiscal policy in strengthening the economy.

Keywords : CSR, Triple Helix, Companies.

INTRODUCTION

The year 2020 was a tough year for the world when suddenly the Covid-19 outbreak appeared, which initially appeared locally in Wuhan – China, then spread and ravaged the joints of the world economy. Global data as of June 2, 2020 shows that 6,140,934 people from 216 countries in the world have confirmed the Covid-19 outbreak and 373,548 of them have died. Meanwhile, Indonesian data shows that there are 27,549 people spread across 34 provinces who are positive for Covid-19 and 1,663 of them have died. When Covid-19 began to emerge at the end of 2019 and began to plague and explode locally in China at the end of January 2020, then spread throughout the world throughout February to the end of May, none of the world's think tanks and strategic thinkers (both from government , private sector, universities, as well as the World Bank and IMF) take it into account, so that the economic outlook in 2020 and the years after is still predicted with normal assumptions.

Various reports from study institutions that analyze the impact of Covid-19 state that there will be a slowdown in the world economy in 2020, and Indonesia is no exception. The United Nations Conference on Trade and Development (UNCTAD, 2020) stated that Covid-19 hit developing countries at a time when they were struggling with unsustainable debt burdens for years. At the end of 2018 the total debt stock of developing countries was 191 percent (or nearly double) their combined GDP, the highest level ever recorded. The developing country debt crisis, which took place before the Covid-19 shock, has two things worth mentioning in the context of the debate on debt reduction for developing countries after the Covid-19 shock. First, the ongoing debt crisis is not limited to the poorest developing countries, but also affects all income categories. Second, in general, it is not caused by economic mismanagement at home, but by economic and financial mismanagement at the global level.

Indonesia also does not escape the possibility of being trapped in the danger of an

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unsustainable budget deficit. When Covid-19 began to spread in Indonesia, the President of the Republic of Indonesia Joko Widodo issued Regulation of the Order in Lieu of Law (Perpu) Number 1 of 2020 concerning State Financial Policy and Financial System Stability for Handling the Corona Virus Pandemic. In Article 2 of the Perpu, it is possible for the government to relax the limitation of the budget deficit of more than 3 percent. It is stated in the article that the budget deficit limit may exceed 3 percent of Gross Domestic Product (GDP) during the handling of Corona Virus Disease 2019 (COVID-19) and/or to face threats that endanger the national economy and/or financial system stability no later than until with the end of Fiscal Year 2022.

The deep implications of the Covid-19 pandemic can be seen from Indonesia's record of economic growth, which this time cannot avoid the negative economic growth gap as experienced by most countries in the world. Although Indonesia's economic growth was able to maintain a positive level in the first quarter, contraction is inevitable in the following quarters of 2020 when the PSBB is implemented in various regions. National economic growth was recorded at -5.3% year on year (YoY) in the second quarter period. For the first time since the Asian financial crisis, Indonesia experienced a growth contraction. All components experienced negative growth. This condition reflects the sharp pressure on economic sectors, both on the demand side such as public consumption and on the supply side.

The Covid-19 pandemic is an extraordinary event and has a very deep impact, including for Indonesia. Compared to various crises that have been experienced before, such as the 1998 Asian Financial Crisis and the 2009 Global Financial Crisis, the Covid-19 pandemic clearly provides a different dimension. Previous financial crises were generally man-made, or in other words caused by human mismanagement in the financial sector. Inevitably, several financial institutions and banks immediately collapsed at that time which led to increased global uncertainty. However, at this time what we are facing is a virus, an object that continues to move dynamically every day. On one day we can see a decrease in the number of spreads, but on another day we see the emergence of new variants that spread different threats.

Considering a little to the early days of Covid-19 appearing, of course we all feel restless. When in January we saw China as a dead city like in the zombie apocalypse movie, anxiety started to arise and the Government immediately closed flights from China. Turning to February, even Singapore's Changi Airport, which is always filled with human traffic, is immediately empty, as are the other busiest airports in the world. The government began to think that something was wrong with this pandemic, although optimism was maintained. However, when in March 2020 one by one people began to contract Covid-19, a new chapter began.

LITERATURE REVIEW

Economic growth

Untoro (2010:39), economic growth is the development of activities in the economy that causes goods and services produced in the community to increase and the prosperity of the community increases in the long term. Meanwhile, according to Sukirno (2006:132), economic growth is an increase in the long-term capacity of the country concerned to provide various economic goods to its population.

From this understanding, it can be concluded that economic growth is a process where there is an increase in real gross national product or real national income. So the economy is said to be growing or developing if there is real output growth. The theories of economic growth are:

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(Sukirno, 2006:132-137).

1. Classical Growth Theory
   This theory was pioneered by Adam Smith, David Ricardo, Malthus, and John Stuart Mill. According to this theory, economic growth is influenced by four factors, namely population, amount of capital goods, land area and natural wealth and technology used.
2. Neo Classical Growth Theory
   Neo-Classical theory developed since the 1950s. The economist who was the pioneer in developing the growth theory was Robert Solow, who was then followed by several other experts such as Edmund Phelps, Harry Johnson and J.E. Meade. In Neo-Classical analysis economic growth depends on the increase and supply of factors of production and the rate of technological progress because the economy will continue to experience a level of full employment and the capacity of capital tools will be fully utilized over time.
3. Harrod-Domar's Theory of Growth
   Harrod-Domar's growth theory is a direct development of John Maynard Keynes' macro growth theory. According to Harrod Domar, every economy basically has to reserve or save a part of its national income to add or replace capital goods. To spur the process of economic growth, new investment is needed which is a net addition to the reserve or capital stock (capital stock). According to this theory, Keynes's analysis is considered incomplete because it does not discuss economic problems in the long term, while Harrod-Domar's theory analyzes the conditions necessary for the economy to grow and develop in the long term.
4. Schumpeter's Theory
   This theory emphasizes the innovations carried out by entrepreneurs and says that technological progress is largely determined by the entrepreneurial spirit in the community who is able to see opportunities and dare to take risks in opening new businesses, as well as expanding existing businesses.

Fiscal policy

Ibrahim (2013: 193), fiscal policy is a government policy related to regulating economic performance through the mechanism of government revenues and expenditures. Fiscal policy is a government policy in regulating every state income and expenditure that is used to maintain economic stability in order to encourage economic growth (Rozalinda, 2015: 137).

The objectives of fiscal policy according to Ibrahim (2013: 194), namely:

1. To increase national production (GDP) and economic growth or improve economic conditions.
2. To expand employment opportunities and reduce unemployment or seek employment opportunities (reducing unemployment), and maintain price stability in general.
3. To stabilize the prices of goods in general, especially to overcome inflation..

Operationally, fiscal consolidation (state budget restructuring) is pursued through controlling the budget deficit with the following steps: (Nizar, 2010:114)

1. Increase in state revenue which is focused on increasing tax revenues and optimizing non-tax state revenues (PNBP).
2. Control and sharpen priorities for state expenditure allocations while ensuring the

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fulfillment of basic needs and minimum expenditure allocations.
3. Sound management of state debt in order to cover the gap in budget financing faced by the government.
4. Improvement of the structure of state revenue and expenditure allocation, by increasing the role of the non-oil and gas tax sector, and gradually diverting subsidies to basic necessities for the poor to make them more targeted.
5. More effective, efficient and sustainable management of state finances, which is carried out among others through improved management of state expenditures. Meanwhile, the strengthening of the fiscal stimulus was primarily pursued through optimizing state spending for development facilities and infrastructure, allocation of state spending for activities and sectors capable of driving the economy, as well as the provision of fiscal incentives (taxation).

Monetary policy

Monetary policy is a government policy to improve the state of the economy through regulating the money supply. The money supply, in macroeconomic analysis, has an important influence on the level of output of the economy, as well as on the stability of prices. The money in circulation is too high without balanced production activities, it will be marked by rising prices for all goods in the economy (Pohan, 2008:14).

Monetary policy in the modern economy is carried out through various instruments, namely: (Wijoyo, 2007:111).
1. Open market operations
2. Determination of the interest rate (Discount rate policy),
3. Determination of mandatory reserves (Reserve requirements policy)
4. Moral appeal (moral persuasion).

Open market operations (OPT) are securities buying and selling activities by the Central Bank. In this regard, the sale of securities by the Central Bank will have the effect of a monetary contraction due to a reduction in banking liquid assets which will reduce the ability of banks to provide loans. On the other hand, the purchase of securities by the Central Bank will have an impact on monetary expansion due to an increase in the liquid assets of banks which will increase their ability to provide loans. OMO is implemented to affect the liquidity of the rupiah in the money market which in turn will affect interest rates. OMO is carried out in two ways, namely through the sale of Bank Indonesia Certificates (SBI) and rupiah intervention through the Bank Indonesia Deposit Facility (FASBI). SBI sales are conducted through auctions so that the discount rate that occurs truly reflects the liquidity condition of the money market. Meanwhile, rupiah intervention activities were carried out by the Central Bank to adjust money market conditions, both liquidity and interest rates (Mishkin, 2007:89).

Discount facility is the monetary policy of the Central Bank to influence the money supply by setting a discount on Central Bank loans to banks. By setting a high discount rate, it is expected that banks will reduce the demand for credit from the Central Bank, which in turn will reduce the money supply. On the other hand, setting a low discount rate will increase the demand for Central Bank loans which in turn will increase the money supply (Pohan, 2008:15). On the other hand, the purchase of foreign currency by the Central Bank will increase rupiah liquidity in the money market (Wijoyo, 2007:112).

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METHODS

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Some of the data analysis techniques used to answer the problem formulation in this study are:

1. The data quality test includes the reliability and validity test of the questionnaire
2. Descriptive Statistics to describe the objective conditions of the three parties involved
3. Fiscal Policy Analysis and Monetary Policy

RESULTS AND DISCUSSION

Results

Table 1. Partial Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.407	.556		.732	.468
	fiscal policy	.538	.161	.484	3.347	.002
	monetary policy	.117	.120	.340	2.969	.008

1. Fiscal policy (X1) towards economic strengthening
   The t-count value of fiscal policy is 3.347 and the Sig value is 0.002. It can be interpreted that the t-count value |3.347| > t table |1,662| and Sig 0.002 < 0.05, it can be interpreted that fiscal policy has a positive and significant effect on economic strengthening so that H1 is accepted.
2. Monetary policy (X2) on economic strengthening (Y)
   The t value for monetary policy is 2,969 and the Sig value is 0.008. It can be interpreted that the value of t count |2,969| > t table |1,662| and Sig 0.008 < 0.05, then monetary policy has a positive and significant effect on economic strengthening so that H2 is accepted.

Table 2. Coefficient of Determination Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.558[a]	.511	.477	.09884

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It is known that the coefficient of determination is R2 = 0.511. This value means that all independent variables, namely fiscal policy and monetary policy can explain the economic strengthening variable 51.1%, while the remaining 48.9% is explained by other variables outside this research model.

Discussion

The Effect of Fiscal Policy on Economic Strengthening

Based on the results of hypothesis testing, it is known that the t-count value of fiscal policy is 3.347 and a significant value of 0.002, it can be interpreted that fiscal policy has a positive and significant effect on economic strengthening. This is in accordance with the results of Hetinawati's research (2021) that fiscal policy plays an active role in increasing economic strengthening during the pandemic. Feranika (2020).

The Effect of Monetary Policy on Economic Strengthening

Based on the results of hypothesis testing, it is known that the t value for monetary policy is 2,969 and the Sig value is 0.008. It can be interpreted that monetary policy has a positive and significant effect on economic strengthening. This is in accordance with the results of research by Samsul (2021), Hernitawati (2021) who stated that monetary policy has an effect on economic strengthening. Rasyidin (2022) also argues that monetary policy has an effect on strengthening economic growth which refers to the use of monetary indicators such as interest rates, money supply, and exchange rates under the control of the central bank to achieve economic stability. Anggraini (2020) Monetary policy does have an effect in suppressing the inflation rate and can achieve economic stability, and what is more real is that at this time the government and a set of policy makers have responded very quickly to the impacts arising from the Covid-19 pandemic that has damaged the economy. global economy with policy stimuli that have been prepared to fight the pandemic.

The results of the analysis obtained from this study are that the government through Bank Indonesia is trying to formulate various policy measures to stabilize the rupiah exchange rate to be in line with market fundamentals and mechanisms, strengthen monetary operations strategy, encourage increased credit/financing in priority sectors, encourage lower interest rates, strengthening the deepening of money markets, strengthening integrated banking supervision between BI, OJK and LPS, extending the merchant discount rate policy, expanding the implementation of digital transactions and encouraging the use of fintech collaboration technology.

North Sumatra's economic recovery is predicted to continue gradually, supported by improvements in various indicators and encouraging optimism for North Sumatra's economic recovery in 2022, which is predicted to be in the 4.1-4.9% (yoy) range. From the external side, the prolonged geopolitical conflict between Russia and Ukraine is indicated to have an impact on supply chain disruption and cause commodity prices to remain at high levels so that it is predicted that the export value of North Sumatra's main commodities will remain high. From the domestic side, economic activity that adapts to the new normal, continued Government stimulus, and the direction of fiscal and monetary policies that remain accommodative are expected to boost domestic demand recovery. However, North Sumatra's economic recovery is still overshadowed by the challenges of global recovery uncertainty and the potential for increased inflationary pressure due to rising global energy and food prices. Therefore, it is necessary to formulate the

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right strategic priorities to support the economic growth of North Sumatra which is stronger, sustainable, balanced, and inclusive.

In terms of the main Business Fields (LU), there are several factors that are predicted to accelerate the economic recovery of North Sumatra. The driving factors for Agriculture, Forestry, Fisheries, include (1) an increase in palm oil production compared to 2021, supported by weather conditions throughout 2022 that support palm oil productivity and maintained demand from trading partner countries, (2) government encouragement to banks to prioritize distribution green credit for the purchase of farmers' production equipment. Meanwhile, the driving factors for the LU for the Manufacturing Industry, among others, are (1) the improvement in the pandemic condition which has contributed to an increase in demand for industrial products compared to the previous year, (2) the encouragement of the Regional Government to ensure more efficient distribution channels and supply chains of raw materials. In the LU for Wholesale and Retail Trade, there are driving factors that are estimated to be supporting, including (1) loosening mobility restrictions and improving pandemic conditions, (2) continuing various incentives such as cash transfer incentives, PPN-DTP (Government-borne) incentives, and policies 3% KUR. The driving factors for the construction sector include (1) accelerating the completion of government and private infrastructure projects, and (2) improving public confidence in the handling of the COVID-19 pandemic, thereby encouraging the recovery of the tourism sector, as well as accelerating the development of supporting infrastructure.

CONCLUSION

Based on the research and analysis results, it is known that fiscal policy and monetary policy affect the strengthening of the economy. The government continues to carry out economic recovery through policies by strengthening monetary and fiscal policy strategies. Based on the results of the analysis, it is known that fiscal policy affects the strengthening of the economy more than monetary policy, this indicates that the government must pay attention to fiscal policy in strengthening the economy. To optimize economic strengthening after the COVID-19 pandemic, the government needs to pay attention to adjusting the APBD budget for regional economic recovery.

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