



## The Impact of Policy on Community Economic Growth

Marjono

Universitas Prima Indonesia

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### Article Info

#### Corresponding Author:

Marjono

E-mail:

[marjono332@gmail.com](mailto:marjono332@gmail.com)

### ABSTRACT

Economic policy plays an important role in promoting growth and equitable distribution of welfare among the people. This study aims to analyze the impact of fiscal, monetary, and economic development policies on Indonesia's economic growth. Using qualitative descriptive methods, secondary data were collected from academic literature, government reports, and publications from international organizations. The results of the analysis show that fiscal policies, such as energy subsidies and incentives for MSMEs, contribute to maintaining purchasing power and encouraging economic activity in the informal and agricultural sectors. On the other hand, appropriate monetary policies, including inflation control and interest rate adjustments, also strengthen macroeconomic stability and investment. Meanwhile, economic development policies that focus on infrastructure equity and job creation have succeeded in reducing regional inequality and poverty. The combination of these three policies has proven effective in accelerating economic recovery after the COVID-19 pandemic, as indicated by GDP growth, a decline in unemployment, and improvements in the Gini ratio and HDI. These findings emphasize the importance of synergy between adaptive policies and cross-sector collaboration in responding to global economic dynamics.

#### Keywords:

Economic policy, fiscal policy, monetary policy, economic development, economic growth

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## INTRODUCTION

Economic policy is a crucial instrument used by the government to guide economic growth and improve public welfare. This policy encompasses fiscal, monetary, and economic development policies, each of which plays a role in creating economic stability, increasing competitiveness, and promoting equitable development. In the Indonesian context, economic policy has become a key tool for addressing various challenges, such as unemployment, inflation, and social inequality.

Economic policy in Indonesia has undergone significant transformations from the New Order to the Reformasi era, each having a significant impact on economic growth. During the New Order, the primary focus was economic stabilization and rehabilitation through the Repelita (Five-Year Development Plan) and cooperation with the IMF and World Bank. The Development Trilogy served as a foundation, but centralization of power and corrupt practices became serious problems, ultimately triggering the 1997 monetary crisis.

The Reformation Era then emphasized economic decentralization and liberalization. Post-crisis economic recovery and increased equitable development became top priorities through financial sector reform and fiscal decentralization. However, global economic challenges, such as the trade war between the US and China, negatively impacted Indonesian exports. Global

economic uncertainty, changes in trade policies, and economic turmoil in several countries have the potential to reduce demand for Indonesian exports.

Furthermore, climate change threatens agricultural productivity and requires significant investment in the energy transition. Global monetary uncertainty, such as the Fed's interest rate policy, puts pressure on the rupiah exchange rate. Factors such as debt imbalances, asset bubbles, or instability in the global financial system can negatively impact the Indonesian economy. Addressing these challenges requires synergy between the government and the private sector in creating adaptive and sustainable policies. The Indonesian government has implemented various strategies to maintain economic stability amidst global uncertainty, one of which is structural reform. This article aims to analyze how economic policies affect economic growth using a data- and literature-based approach.

## METHOD

This research uses a qualitative descriptive method, reviewing relevant literature on fiscal, monetary, and economic development policies. Secondary data was collected from academic journals, government reports, and publications from international organizations such as the World Bank and the IMF. The analysis was conducted by identifying the direct and indirect impacts of these policies on community economic growth.

## RESULTS AND DISCUSSION

### 1. Fiscal Policy

Fiscal policy involves regulating taxes and government spending to achieve sustainable economic growth. Research by the Indonesian Ministry of Finance (2022) found that increased government spending on education and infrastructure has boosted labor productivity and expanded public access to basic services.

#### a. Taxes and Subsidies

Progressive taxes help distribute income more evenly, while subsidies maintain purchasing power for the poor. For example, energy subsidies in 2023 successfully suppressed inflation to below 4% (BPS, 2023).

#### b. Infrastructure Investment

Massive investments in transportation infrastructure such as the Trans-Java toll road have increased inter-regional connectivity, thereby accelerating the distribution of goods and services.

### Impact of Fiscal Policy on the Agricultural and MSME Sectors



Figure 1. Impact of Fiscal Policy on the Agricultural and MSME Sectors

- a. Agricultural Sector, Fiscal policy, especially regional government capital expenditure in the agricultural sector, has the potential to increase the Gross Regional Domestic Product (GRDP) of the agricultural sector.
- b. MSMEs and the Informal Sector: Fiscal incentives such as tax reductions or exemptions provide greater financial space for MSMEs to meet operational needs<sup>1</sup>. The government has provided a number of fiscal incentive policies targeting MSMEs and the informal sector, including: a 0.5% income tax (PPH) rate policy for MSMEs with annual turnover below IDR 4.8 billion; interest subsidies for people's business credit (KUR) to help MSMEs access low-interest financing; direct cash assistance (BLT) for micro-enterprises in the form of working capital grants; relaxation of value-added tax (VAT) for certain sectors, especially those affected by the pandemic; loan restructuring facilities for small and medium enterprises facing liquidity difficulties<sup>1</sup>.

### **Case Study: Implementation of Energy Subsidies in Indonesia**

Energy subsidies are a fiscal policy instrument used by the government to maintain public purchasing power. Energy subsidies help maintain price stability and ease the burden on household expenses, particularly for low-income groups.

## **2. Monetary Policy**

Monetary policy managed by Bank Indonesia focuses on the stability of the rupiah exchange rate, controlling inflation, and regulating interest rates.

### **a. Low Interest Rates**

A 25 basis point reduction in BI's benchmark interest rate in 2023 will boost domestic investment by 15% (OJK, 2023). This demonstrates that monetary policy can stimulate real sector growth. Several countries have successfully implemented effective monetary policies to achieve economic stability and growth. For comparison, studying monetary policy in developing countries can provide valuable insights into improving the effectiveness of monetary policy in Indonesia.

### **b. Price Stability**

By controlling inflation below the 3% target, public purchasing power is maintained, allowing household consumption, the largest component of GDP, to continue to grow. The stability of the rupiah exchange rate has significant implications for export and import activities. A stable exchange rate provides certainty for international businesses, encourages investment, and enhances the competitiveness of Indonesian export products.

## **3. Economic Development Policy**

Economic development policies aim to create inclusive and sustainable growth. The Indonesian government, through the Masterplan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI), has successfully increased the manufacturing sector's contribution to GDP to 22% by 2022 (Bappenas).

### **a. Regional Equity**

Investment in underdeveloped regions such as Papua through basic infrastructure development has reduced regional inequality by 10% in the last five years (BPS, 2023).

### **b. New Job Opportunities**

The government's labor-intensive program is expected to create more than 2 million new jobs by 2023 (Ministry of Manpower). This has had a positive impact on reducing the national poverty rate.

#### **4. Real Impact of Policy on Society**

The right combination of fiscal and monetary policies has proven effective in restoring the economy after the COVID-19 pandemic. Data shows that Indonesia's GDP grew by 5.4% in the second quarter of 2023, compared to a -2% contraction in 2020 (BPS). Furthermore, the unemployment rate has fallen from 7% to 5% over the past three years.

##### **a. Quantitative Data, Gini Ratio and Human Development Index (HDI)**

To measure the impact of policies on welfare equality, quantitative data such as the Gini ratio and the Human Development Index (HDI) can be used. The Gini ratio measures income inequality, while the HDI measures quality of life based on health, education, and living standards.

##### **b. Testimonials or Interviews from the Community or Small Business Owners**

In addition to quantitative data, testimonials or interviews from the community or small business owners provide valuable micro-perspectives. The direct experiences of policy beneficiaries can provide a more comprehensive picture of the policy's effectiveness and impact on daily life.

### **CONCLUSION**

Fiscal, monetary, and economic development policies significantly influence economic growth. Through effective tax management, strategic infrastructure investment, and national financial stability, the government has successfully created economic conditions conducive to improving public welfare. However, the success of these policies requires strong coordination between agencies and regular evaluation to ensure optimal impact for all levels of society.

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