

**THE URGENCY OF THE ESCAPE CLAUSE TO COMPLEMENT THE GOVERNMENT'S
INTERVENTION POLICY: A CASE STUDY OF INDONESIA'S FISCAL POLICY IN REDUCING
THE NEGATIVE IMPACT OF THE COVID-19 PANDEMIC ON THE INDONESIAN ECONOMY**

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Abstract

The Covid-19 pandemic has put pressure on state finances from two sides at once, revenue and spending. The Covid-19 pandemic has reduced state revenues in large quantities, both from taxes and non-taxes. At the same time, state spending has increased sharply, especially for handling the Covid-19 pandemic. Even though during the Covid-19 pandemic, state fiscal policy instruments became the main focus in dealing with the Covid-19 pandemic. Each country has a different way of dealing with the pressures from the Covid-19 pandemic, depending on the capabilities and fiscal space they have. By using the mix method, this research attempts to quantitatively examine the effectiveness of state fiscal policy in dealing with the economic crisis due to a pandemic and at the same time we also examine the possibility of an internalization process of escape clause policies to increase the effectiveness of this fiscal policy.

Keywords: Economic Crisis, Pandemi Covid-19, Fiscal Rules, Escape Clause,

1. Introduction

The Coronavirus disease 2019 (COVID-19) pandemic has caused enormous economic shocks at both the regional and global levels. All countries in the world are experiencing enormous economic pressure. This enormous economic pressure has reduced the performance of the industrial and financial sectors, created new unemployment, and increased the poverty rate (Uddin, 2021).

The decline in overall economic performance has resulted in government spending being the only main focus in dealing with the economic crisis caused by the Covid-19 pandemic. The government's fiscal policy is expected to be able to act as a shock absorber that can stabilize the economy (Gbohoui and Medas, 2020).

At the same time, the Covid-19 pandemic has also put enormous pressure on government finances. Even as a result of the Covid-19 pandemic, government finances have received double pressure, namely pressure on the revenue side and on spending / spending. The Covid-19 pandemic has significantly reduced government revenue from both the tax and non-tax state revenues. On the other hand, the Covid-19 pandemic has also caused government spending to increase sharply, namely spending on programs to combat the spread of the Covid-19 virus and programs to reduce the economic crisis due to the Covid-19 pandemic (Choudhury and Datta, 2022).

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In dealing with the economic crisis due to the Covid-19 pandemic, each country has different approaches and methods, depending on each country's fiscal capacity. Countries that have large fiscal space, such as the United States and China, can easily spend extra on their Covid-19 countermeasures and economic recovery programs. Several countries that have limited fiscal space, they carry out budget rationalization by selecting priority programs. They are reallocating and revising the budget so that it can be used for programs to combat the spread of Covid-19 and economic recovery (Barroy et.al. 2020, Curristine et. al. 2020, Gbohoui and Medas, 2021).

Indonesia is included in a country that has limited fiscal space. Therefore, in the face of the Covid-19 pandemic, the government is reallocating and refocusing the budget. The government has revised the achievement targets in the 2020-2024 Medium-Term Development Plan (RPJM). The government is improving the Government Work Plan (RKP) by prioritizing programs for dealing with the Covid-19 pandemic and post-pandemic economic recovery (Muhyiddin and Nugroho, 2021).

The Indonesian government is making larger allocations for programs to deal with the Covid-19 pandemic and economic recovery programs. Interestingly, the government's fiscal stimulus program was relatively small compared to other countries (Figure 1). At the start of the pandemic, the government only provided a fiscal stimulus of 2.6 percent of GDP.

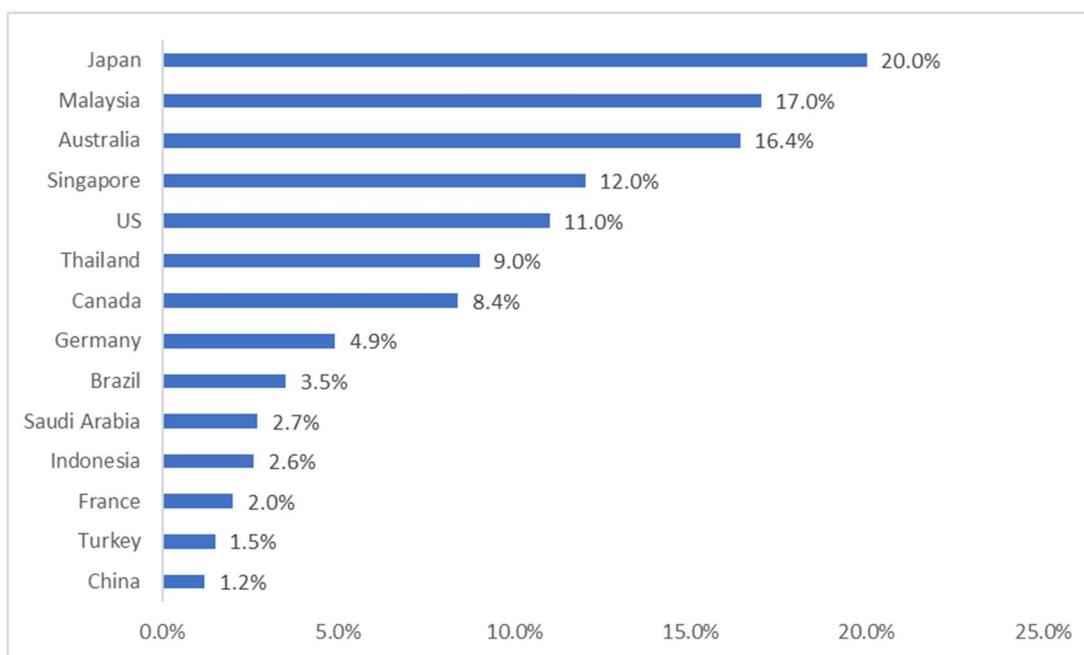


Figure 1. Ratio of Fiscal Stimulus to GDP in Several Countries

Source: Statistics Bloomberg, 2020

But interestingly, the effectiveness of this small fiscal stimulus was able to significantly reduce the spread of the Covid-19 virus. Even with this limited budget, the government was able to reduce its negative economic impact. The economic recession that has occurred in Indonesia due to the pandemic is not as bad as in other

countries such as countries in Europe, Japan, the United States and Singapore. The economic contraction that occurred in Indonesia in 2020 was only -2.1 percent, better than the four countries (Figure 2).

Each country has regulations that limit the use and allocation of mandatory budgets. These regulations are usually related to the maximum amount of the budget deficit, the ratio of debt to gross domestic product (GDP), and the size of the budget in a certain post. Initially these regulations were used to keep the budget healthy and strong (Choudhury and Datta, 2022).

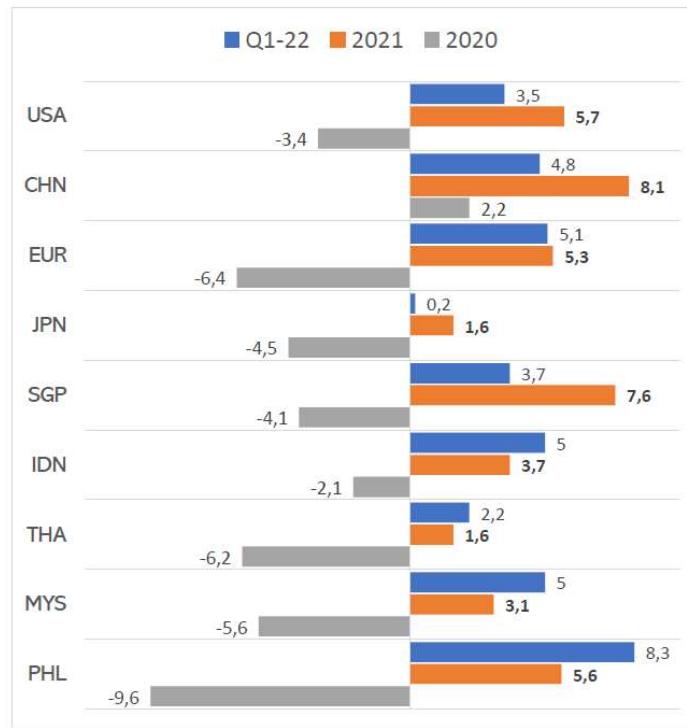


Figure 2. Economic Growth in Several Countries During the Covid-19 Pandemic

Source: Ministry of Finance of the Republic of Indonesia, 2022

In extraordinary conditions such as crises, natural disasters, or other extraordinary situations, these limiting regulations must be changed and adapted to these extraordinary conditions. In developing countries like Indonesia, changing these regulations usually requires a long and lengthy process, especially the political process between the executive and legislature. In this process, a moral hazard usually arises which is used by certain elements to gain economic benefits for personal or group interests (Romarina & Makhfatih, 2010).

This paper wants to try to see how escape clause regulations can be applied to increase the effectiveness of government policies when facing an economic crisis. This escape clause is used as a regulation that can change the restrictive regulations made to limit the use of the state budget under normal conditions. In several countries, regulations regarding escape clauses are used to minimize the emergence of moral hazard that has the potential to occur during the process of changing regulations in extraordinary circumstances.

Therefore, this paper uses a mixed method approach, namely quantitative and qualitative approaches. A

quantitative approach is used to prove the level of effectiveness of the government's countercyclical policies, both discretionary policies and automatic stabilizers, in dealing with extra-ordinated conditions which in this study are economic crises. Quantitative analysis used is time series analysis.

Meanwhile, a qualitative approach is used to examine the possibility of applying regulations regarding escape clauses, especially from the side of financial management and public administration. The qualitative approach used in this paper is a process-tracing approach. The process-tracing approach allows the writer to discover the causal mechanism of a policy historically.

The country chosen as the research sample is Indonesia. Apart from the reasons for the effectiveness of the fiscal stimulus policy as explained earlier, the country of Indonesia is used as a case example in this study considering that Indonesia is a developing country which has had long stages, procedures and political processes when the government wants to change its revenue and expenditure budget (Romarina & Makhfatih, 2010).

2. Literature Review

There have been many studies examining the role and function of government policies in influencing economic conditions including business cycles such as economic crises. The function and role of the government's fiscal stimulus policy began to develop rapidly after John Maynard Keynes (1936) published his writings on the General Theory of Employment, Interest and Money.

Through fiscal policy, the government can influence economic conditions. One example of government intervention through fiscal policy is a countercyclical policy. The government makes countercyclical policies when economic conditions experience overheating so that economic growth slows down and returns to its optimal level. Conversely, the government also provides stimulus when conditions are in a recession so that economic growth can increase again and be in optimal conditions (Seidman, 2003).

This countercyclical policy is divided into two, namely discretionary policy and automatic stabilizer. There have been many studies examining the effectiveness of these two policies in influencing economic conditions. Although relatively inconclusive, almost all studies have the same conclusion, that is, both discretionary policies and automatic stabilizers are effective in influencing the business cycle during both normal times and economic crises (Horton and El-Ganainy, n.d.; Boone & Buti, 2019.; Akitoby et al., 2006; Baldacci, 2009; Surjaningsih et al., 2012).

However, using the dimensions of the Covid-19 pandemic, Choudurhy and Datta (2022) found that the effectiveness of the fiscal stimulus policy made by the government was greatly influenced by regulations that limited the use of the budget for this fiscal policy. The process of adapting the use of the budget is usually made in the form of an escape clause.

The escape clause policy provides space for the government to use its budget without having to stick to the regulations limiting the use of the budget previously made. The escape clause regulation was originally widely used in companies. In compiling the Company's Work Plan and Budget (RKAP), companies usually provide space for management to take actions beyond the regulations that have been previously made if previously assumed conditions do not occur and extraordinary, unexpected conditions occur (Fischer et al., 2019).

This escape clause theory is part of the contingency theory where the main purpose of this theory is to reduce the risk of unexpected conditions. This escape clause policy will be activated automatically when an unexpected condition occurs. This escape clause policy also regulates what extraordinary conditions can activate the various steps contained in the escape clause (Pang et al., 2020).

Pang et al. (2010) describes several stages in contingency theory starting from how to communicate during a crisis, the decision-making process, who is allowed to make decisions, to how rules are made when a crisis occurs. Contingency planning is very important in dealing with crisis conditions so that the impact of damage that occurs can be minimized.

In the context of state finances, several countries already have this escape clause policy included in their state finance laws. On average, developed countries in Europe already have this escape clause policy in their state financial laws. Several developing countries in Latin America also have escape clause policies in their state financial laws, namely Brazil, Mexico, and Peru (Berganza, 2012).

The Indonesian state does not yet have an escape clause policy in its state finance law. Even though it is a country that believes in the effectiveness of countercyclical policies, the escape clause policy has not yet become an integral part of the statutory system. Policy changes needed in response to a crisis are always made when the crisis has occurred and always go through the process of approval of the House of Representatives (DPR) legislation, as happened when responding to the economic crisis due to the Covid-19 pandemic (Abimanyu, interview result, 16 February 2022). This research wants to answer this gap, whether the escape clause policy is required in the state finance law, and whether it can be internalized into the Indonesian state financial system.

3. Methodology

The method used in this study is the mix method, namely by combining both quantitative and qualitative approaches. A quantitative approach is used as complementary evidence to calculate how much influence the government's countercyclical policies have had on Indonesia's economic growth during the crisis caused by the Covid-19 pandemic. Meanwhile, a qualitative approach is used to examine the possibility of internalizing the escape clause policy in the state finance law and to examine the practical implementation of the escape clause policy in the state revenue and expenditure budget law (APBN).

3.1. Quantitative Approach

To see the effectiveness of the government's countercyclical policy, we divide it between discretionary policies and automatic stabilizer policies. Both of these policies fall into countercyclical policies but in different ways/mechanisms.

To see the effectiveness of the two policies we divide into two sides, namely the influence of the state's income and expenditure side. State income in this study is defined as $\text{Rev} \in \{\text{IT}, \text{VAT}, \text{Others}\}$ and expenditure is $\text{Exp} \in \{\text{Cexp}, \text{Rexp}\}$. The variable IT is income tax, VAT is value added tax, and Others is other income. While the Cexp variable is central government spending and Rexp is transfers to local governments.

Government revenue/revenue is divided into two groups, namely tax and non-tax (excluding grant receipts). Meanwhile, the terms for government spending/spending used in this study are central government spending

or realization of recurring spending (mostly allocated for wages/salaries and purchases of goods/services) and capital spending and interest payments (IRP).

This quantitative approach also examines the effectiveness of transfer spending to the regions. Ideally, social assistance expenditure variables are also included in it. However, unfortunately this data is not available. Therefore, an automatic stabilizer will be examined between the two options, following central government spending or regional spending.

The observation period was carried out from the first quarter of 1983 to the first quarter of 2022. Fiscal data was obtained from the Ministry of Finance. GDP data obtained from the Central Bureau of Statistics. All nominal variables are converted to real values through the GDP deflator as a dividing factor. The GDP deflator is the quotient between GDP at current prices and GDP at constant prices. Constant prices have been adjusted for the same base year (2010=1).

3.1.1. Estimation Models

This section attempts to explain and develop an analytical framework for the quantitative approach to be used. The idea of this quantitative approach is that the total government spending budget (Exp) should be sufficiently financed by total domestic income (Rev). If there is not enough Rev to cover Exp, the available financing option is debt. If the debt policy is carried out, in the following period there will be an interest payment (IRP). From this idea tips can compile the overall fiscal balance (OB) is the difference between Rev and Exp:

$$OB = Rev - Exp \quad (1)$$

When the IRP is removed from total government spending, the primary budget (PB) balance is obtained:

$$PB = Rev - (Exp - IRP) \quad (2a)$$

so that

$$OB = PB - IRP \quad (2b)$$

3.1.2. Discretion and Automatic Stabilizer Calculation

To calculate discretionary policies and automatic stabilizers, researchers followed the OECD methodology (Giorno, Richardson, Roseveare, and Van de Noord, 1995). The primary fiscal balance can be broken down into cyclically adjusted primary balance (CAPB) and cyclically adjusted primary balance (CPB):

$$PB = CAPB + CPB \quad (3)$$

The CPB is part of the main balance which automatically reacts to cycles (automatic stabilizer). From (2b) and (3), changes in OB can be described as: (i) the automatic response of fiscal variables to changes in output; (ii) the response of fiscal variables to changes in discretionary policies; and (iii) changes in interest payments, as follows:

$$\Delta OB = \Delta CAPB + \Delta CPB - \Delta IRP \quad (4)$$

where Δ is the difference between two consecutive years, t and t+1 (or the difference relative to the reference year).

Finally, the automatic stabilizer (AS) is defined as the change in the primary balance of the cycle:

$$AS = \Delta CPB = \Delta OB - \Delta CAPB + \Delta IRP \quad (5)$$

Changes in the primary balance that are adjusted cyclically can come from income and expenses that are adjusted cyclically. Specifically, the cyclically adjusted revenue component Rev^{CA} is defined as:

$$\text{Rev}^{\text{CA}} = R \left(\frac{Y^P}{Y} \right)^{\varepsilon_R} \quad (6)$$

where Y^P is potential output (that is, the maximum compatible output, at any given time, in the absence of unexpected inflation), Y is actual output and ε_R is income elasticity with respect to output gap.

Similarly, the cyclically adjusted cost component of Exp^{CA} is described as follows:

$$\text{Exp}^{\text{CA}} = E \left(\frac{Y^P}{Y} \right)^{\varepsilon_E} \quad (7)$$

where ε_E is the elasticity of expenditure against the output gap

$$gap = \left(\frac{Y - Y^P}{Y^P} \right) \quad (8)$$

By subtracting (6) and (7), we get the cyclically adjusted primary balance:

$$CAPB = R \left(\frac{Y^P}{Y} \right)^{\varepsilon_R} - E \left(\frac{Y^P}{Y} \right)^{\varepsilon_E} \quad (9)$$

Cyclically adjusted primary balances are often measured in terms of the potential output of a "natural" scale variable because cyclically adjusted primary balances measure what the fiscal balance would look like if output were at its potential level ($Y = Y^P$).

$$capb = \frac{\text{Rev}^{\text{CA}}}{Y^P} - \frac{\text{Exp}^{\text{CA}}}{Y^P} = \frac{\text{Rev}}{Y} \left(\frac{Y^P}{Y} \right)^{\varepsilon_R - 1} - \frac{\text{Exp}}{Y} \left(\frac{Y^P}{Y} \right)^{\varepsilon_E - 1} \quad (10a)$$

where gap is the output gap, while r and e shows the ratio of income and expenditure to GDP. Capb shows the ratio of cyclically adjusted primary balances to potential GDP.

$$capb = r(1 + gap)^{-(\varepsilon_R - 1)} - e(1 + gap)^{-(\varepsilon_E - 1)} \quad (10b)$$

This expression captures primary "structural" balances, that is, primary balances that are not affected by cyclical fluctuations. Changes in capb are often used to estimate the size/cost of discretionary policies.

$$cpb = \frac{CPB}{Y} = \frac{PB}{Y} - \frac{CAPB}{Y^P} = pb - capb \quad (11a)$$

$$cpb = r(\varepsilon_R - 1)gap - e(\varepsilon_E - 1)gap \quad (11b)$$

where pb and cpb are primary balance and cyclical primary balance in percent of actual GDP. The contribution of automatic stabilization to the change in overall balance is then given by the change in (11b) between the two periods.

$$as = \frac{AS}{Y} = \Delta cpb = cpb_t - cpb_{t-1} \quad (12)$$

To identify potential outcomes, the Hodrick-Prescott (HP) method was adopted. This method is widely used in macroeconomic circles to obtain a smooth estimate of the long-term trend component of a series. This method was first used in a working paper (published in the early 1980s and published in 1997) by Hodrick and Prescott to analyze postwar US business cycles.

Technically, the HP filter is a two-tailed linear filter that computes a smooth series of y by minimizing the variance of y around t , which incurs a penalty that limits the difference of the two to one in time. That is, the HP filter chooses to minimize:

$$\sum_1^T (y_t - \tau_t)^2 + \lambda \sum_2^{T-1} [(\tau_{t+1} - \tau_t) - (\tau_t - \tau_{t-1})]^2 \quad (13)$$

The λ parameter controls the smooth movement of the τ series. The bigger λ , the smoother the movement of τ will be. When $\lambda=\infty$, then τ approaches a linear trend. The default value of λ in Eviews is set for up to 1,600 quarterly data.

3.2. Qualitative Approach

The qualitative method used in this study is the Process-tracing method. The process-tracing method provides the flexibility to carry out policy analysis and find causal mechanisms historically. The use of this method aims to find causal mechanisms between conditions and the resulting results through analysis of a series of events in one or several cases (Putra and Sanusi, 2019). Process-tracing operationalization can be seen in Figure 3.

Qualitative data were collected through interview techniques and documentation techniques. Interviews were conducted with several informants. The selection of informants was carried out through several criteria. The criteria used are representations of institutional elements and actors involved in making and managing state finances, both in the New Order era and also in the reform era. At the two institutions studied, there were at least 4 informants and will continue to increase until the data/information obtained is sufficient and answers all research questions. The selection of informants was carried out using a purposive sampling technique, which is a sampling technique for data sources with certain considerations (Sugiyono, 2016).

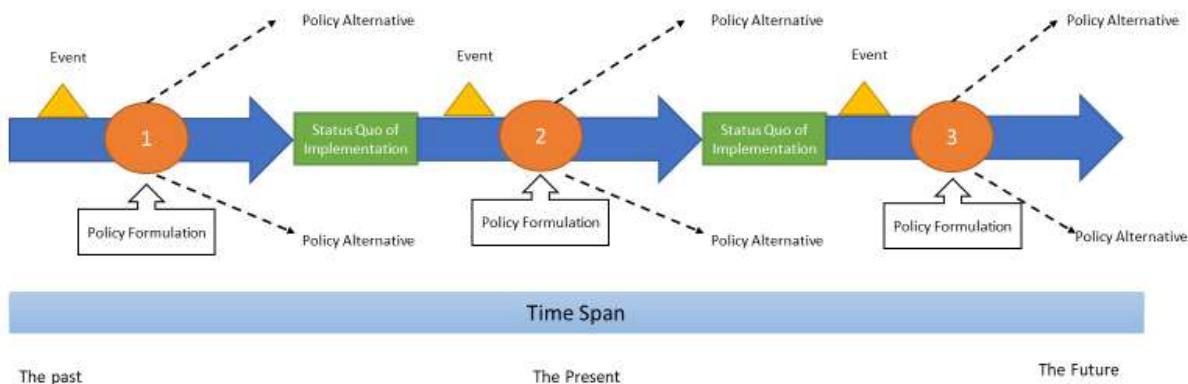


Figure 3. Operationalization of the process-tracing method in Public Policy Analysis

Source: Putra and Sanusi, 2019

Informants selected in order to answer the formulation of this research problem include:

1. Head of the Fiscal Policy Agency, Ministry of Finance of the Republic of Indonesia for the period 2006 – 2010
2. Deputy Chairman of the DPR RI Budget Committee for the 2004 - 2009 period
3. Deputy Minister of Finance of the Republic of Indonesia for the 2019 - 2024 period
4. Chairman of the DPR RI Budget Board for the 2019 – 2024 period

To check the validity of the qualitative data from the interviews, the authors use two methods, namely:

1. Triangulation, which is a data validity checking technique that utilizes something other than the data for checking purposes or as a comparison of the data (Lexy, 2018).
2. Perseverance Observation, intends to find characteristics and elements in situations that are very relevant to the problem or issue being sought and then focus on these things in detail.

The analytical procedures and techniques of the process-tracing method are carried out in the following steps:

1. Conceptualizing cause-and-effect relationships.
2. Conduct case selection
3. Gather valid evidence or evaluate empirical evidence
4. Testing the hypothesis on the operationalization of empirical tests. This step is carried out deductively, namely to test the research hypothesis with conclusions, both departing from qualitative and quantitative research.

4. Result and Discussion

4.1. Quantitative Evidence

The estimation results of equation (8) for real GDP are shown in Figure 4. The output gap (the difference between actual and potential output) tended to be low in the mid-1980s, the 1998 crisis, and during the pandemic. In the mid-1980s, the national economy was hit by a recession and trade protection in the main export destination countries. On the other hand, the output gap narrowed with excellent economic growth, especially in the late 1980s and early 1990s. Then the output gap turned into a negative area due to the Asian Financial Crisis, and returned to relative stability in the 2000s. The gap turned positive just before the Covid-19 pandemic hit in 2020 and dragged the output gap negative. These results provide an initial indication that the plus/minus output gap of 5 percent (normal estimate) and 10 percent (pessimistic estimate) can be used as an initial reference for active (countercyclical) fiscal policy, either through discretionary policy or automatic stabilizer.

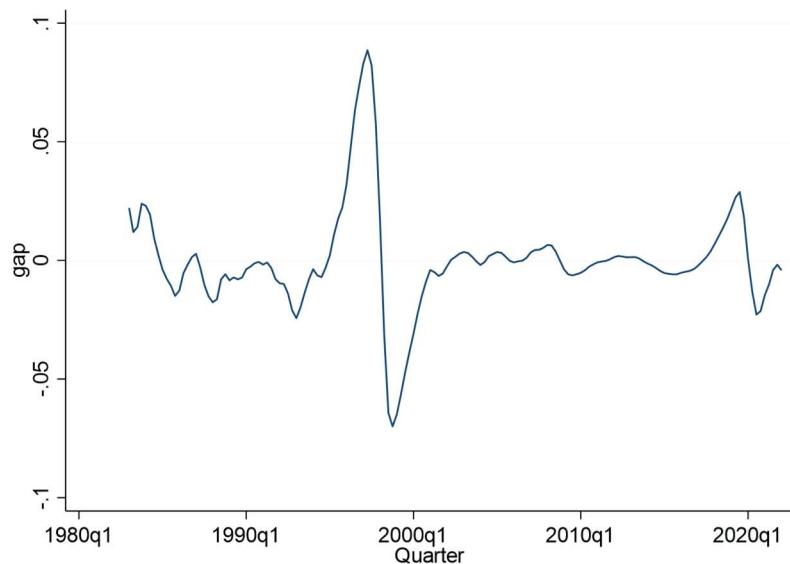


Figure 4. Output Gap $((Y-Y_p)/Y_p)$

Figure 5 explains more about the effectiveness of the automatic stabilizer policy and fiscal discretion. The role of fiscal discretion was seen to be high in the mid-1980s and during the Covid-19 pandemic. The same pattern is found on the auto stabilizer. The automatic stabilizer was seen at a very high level in the early 1980s, the 1997/1998 crisis, and during the Covid-19 pandemic. Financial sector regulations launched in June 1983 and the enactment of the new Tax Law in 1985 are thought to have triggered the high role of the automatic stabilizer. After that, the role of the automatic stabilizer tends to be relatively stable. However, the automatic stabilizer rose sharply during the Asian Financial Crisis. During a pandemic, discretionary and automatic fiscal policies are used simultaneously, but the moves are in opposite directions. In the early phase of the pandemic, the government provided a large economic stimulus package through discretionary policies. The automatic stabilizer started to increase after the fiscal discretion was reduced in the following pandemic period. Overall, although it uses more discretion, we see that the government also uses an automatic stabilizer policy to manage macroeconomic performance through a state budget deficit.

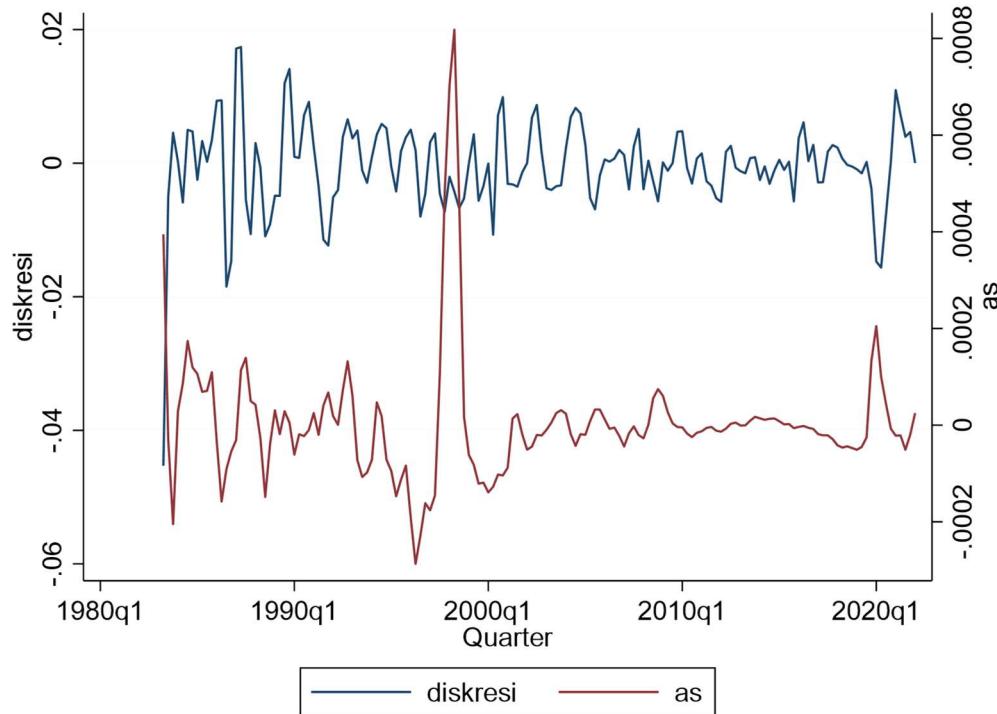


Figure 5. Discretion and Automatic Stabilizer

Comparison of the effectiveness between automatic stabilizer policies and fiscal discretion is summarized in Table 1. Automatic stabilizer has a negative correlation with discretionary deficit, primary balance, overall deficit, and output gap. This contradicts theoretical predictions that automatic stabilizers will increase the budget deficit. However, the automatic stabilizer component can be increased if the potential output is lower than the actual output.

Discretionary fiscal policy has a direct relationship with the primary balance deficit and the overall deficit. However, fiscal policy is moving in the opposite direction to the output gap. Increasing fiscal discretion is always associated with reducing the gap between potential output and actual output. As a result, discretionary fiscal policy becomes countercyclical. The relatively low stabilization component in fiscal policy is suspected to have resulted in a large and expensive stimulus policy (Dolls, Fuest, and Peichl, 2012).

Table 1. Correlation

	AS	Diskresi	RPB	RDef	Gap
AS	1.000				
Diskresi	-0.247	1.000			
RPB	-0.132	0.218	1.000		
RDef	-0.070	0.188	0.800	1.000	
Gap	-0.153	-0.017	0.340	0.350	1.000

4.2. Adaptation of US Policy in Management of Public Policy in Times of Economic Recession

In facing the threat of a wave of economic crises, both originating from economic and non-economic shocks, a strong framework is needed so that the countercyclical policies made by the government are still able to create a stable, growing and equitable economy. With a reliable fiscal budget, the negative impact of the economic crisis can be mitigated and minimized in an integrated, efficient and effective manner.

A reliable fiscal budget can be created if Public Finance Management can be implemented properly. Countercyclical policies made by the government must be guided by the principles of good public financial management.

During times of crisis, the government must review various countercyclical instruments originating from Public Financial Management so that these instruments can be used to deal with economic crises both originating from economic and non-economic shocks. The government's instruments to implement strong countercyclical policies include information, policy processes, and regulations (Schick, 2013). These three components must be able to adapt to various conditions and crisis situations they face. The use of these three components cannot be generalized before the crisis or during the crisis. Its use will also differ in each crisis such as whether the cause of the crisis is economic or non-economic.

Indonesia actually already has a crisis management protocol as stipulated in Law of the Republic of Indonesia Number 9 of 2016 concerning Prevention and Handling of Financial System Crisis. With the crisis protocol in place, members of the Financial System Stability Committee consisting of the Minister of Finance, Governor of Bank Indonesia, Chairman of the Board of Commissioners of the Financial Services Authority (OJK), and Chair of the Board of Commissioners of the Deposit Insurance Corporation (LPS) can exchange data and information between members who necessary in order to prevent and handle the Financial System Crisis.

Information on public financial management in Indonesia is quite adequate, although it is still not perfect. With the support of an information system that continues to be developed, information can be quickly obtained to serve as a basis for making fiscal policy. In times of crisis, where information is very important to be obtained quickly and in real time, the process of exchanging information can also work between agencies. The crisis protocol stipulated in Law Number 9 of 2016 is the key so that there is a quick exchange of information and decision-making in preventing potential crises and overcoming crises when they do occur.

The next instrument of Public Policy Management is the Policy Process. The policy process is the transformation of information into decisions, actions or documents. Any significant Public Finance Management innovation changes one or more procedures, usually concurrent with information changes (Schick, 2013). In the face of a recession, where the economy has been in decline for quite a long time, the fiscal policy made can follow discretionary policy procedures and/or Automatic Stabilization.

The third instrument of public financial management is the rules (rules). Various countercyclical policies made by the government to deal with the economic crisis must be internalized into a set of binding rules. However, like other countries, Indonesia has a set of rules that often limit countercyclical implementation during times of crisis such as regulations regarding debt amounts, budget deficits, proportions of government spending, revenue regulations, and/or balanced budget regulations (Bandaogo, 2020; Choudhury and Datta, 2022).

Beyond the numerical limits and targets set by these restrictive rules, certain features also vary from country to country, such as the scope of the rules (whether they relate to central, state, and local (general) governments or only to governments central government), legal basis, the existence of an independent monitoring authority and/or formal enforcement mechanisms, escape clauses, and formal sanctions for violations.

In this paper, the authors focus on escape clauses in fiscal regulations to deal with crises. This escape clause is very important to build strong fiscal credibility in times of crisis by including certain contingencies in the fiscal rules that set out a clear plan on how to proceed in the event of an unexpectedly severe crisis. These contingency or escape clauses allow the government to not only pre-commit to exceeding certain fiscal limits only in very specific and unprecedented cases, but also provide the government with the opportunity to put together a credible plan to return to compliance after a shock (Bandaogo, 2020).

In ICW stbl. 1925 No. 488 which is the fiscal rule in the application of the State Budget during the 1997/1998 crisis, the State Budget during this crisis did not have an escape clause in the event of an emergency or crisis. The absence of escape clauses creates uncertainty and there are no standard indicators in the APBN if there is an emergency or crisis. Amendments to the APBN during a crisis are carried out based on discretionary policies with consideration of adjusting the State Revenue and Expenditure Budget with developments and/or changes, and then the estimated changes to the State Revenue and Expenditure Budget for Fiscal Year 1997/1998 and Fiscal Year 1998/1999 are regulated by Law .

After the implementation of the fiscal regulation package in 2003 and 2004, the legal basis for implementing the state budget during the 2008 and 2009 crises was Law Number 17 of 2003 in which the law already contained an escape clause, although it was still in the context of discretion. Law Number 17 of 2003 provides room for changes in fiscal policy in the event of a crisis.

However, the escape clause is felt to be less fast and less flexible in dealing with such a dynamic crisis. Anggito Abimanyu (interview, 16 February 2022) explained that during the 2008 crisis, the 2009 State Budget Law had tried to include an Automatic Stabilization mechanism, in the form of triggers, indicators, impacts and alternative policies and quick decisions. The escape clause is placed in Article 23 of Law Number 41 of 2008 concerning the 2009 State Revenue and Expenditure Budget which reads:

- (1) In an emergency, if the following things happen:
 - a. decline in economic growth below the assumptions and deviations of other macroeconomic assumptions that cause a decrease in state revenues, and/or a significant increase in state spending;
 - b. significant increase in the cost of debt, especially yields on Government Securities; and/or
 - c. systemic crisis in the national financial and banking system requiring additional guarantee funds for banks and Non-Bank Financial Institutions (LKBB), the Government with the approval of the House of Representatives can take the following steps:
 1. expenditures for which the budget is not yet available and/or expenditures that exceed the ceiling set in the APBN for Fiscal Year 2009;

2. budget shifts between programs, between activities, and/or between types of spending within one state ministry/institution and/or between state ministries/institutions;
 3. savings in state spending in the context of increasing efficiency, while maintaining program targets/prior activities that must still be achieved;
 4. Withdrawal of standby loans from bilateral and multilateral creditors;
 5. Issuance of State Securities exceeding the ceiling set in the APBN of the year concerned.
- (2) The government submits the policy steps referred to in paragraph (1) in the Semester I Report on APBN Implementation and/or Central Government Financial Reports.

With this clause, continued Abimanyu, the limits and time for deliberating the APBN Law and/or the APBN-P Law with the Budget Agency are discussed in general, identifying triggers, impacts and policy instruments and in 1 X 24 hour discussions. Unlike the usual deliberations on laws that took a long time, the approval of the DPR (Budget Committee) and the government at that time was limited to only one twenty-four hour period after the government's proposal was received.

Whereas in the 2020 crisis, apart from still using the escape clause regulated in Law Number 17 of 2003, the government and the Indonesian Parliament passed Law Number 2 of 2020 concerning Stipulation of Government Regulation in lieu of Law Number 1 of 2020 concerning State Financial Policy and Financial System Stability for Handling the 2019 Corona Virus Disease (Covid-19) Pandemic and/or in the Context of Dealing with Threats that Endanger the National Economy and/or Financial System Stability Becomes Law. The law stipulates that in the context of implementing the state financial policy as referred to in Article 1 paragraph (4) the Government has the authority to:

- a. determine budget deficit limits, with the following conditions:
 1. exceeding 3% (three percent) of the 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 at the latest until the end of the Year Budget 2022;
 2. since the 2023 Fiscal Year, the amount of deficit will return to a maximum of 3% (three percent) of the Gross Domestic Product (GDP); and
 3. adjustments to the amount of the deficit referred to in number 1 to be referred to in number 2 shall be carried out in stages.
1. Remaining Budget Excess (SAL);
2. endowment fund and accumulation of endowment fund for education;
3. funds controlled by the state with certain criteria;
4. funds managed by the Public Service Agency; and/or

5. funds originating from reducing State Equity Participation in State-Owned Enterprises (BUMN);
- b. issue Government Bonds and/or State Sharia Securities with a specific purpose, especially in the framework of the Corona Virus Disease 2019 (COVID-19) pandemic to be purchased by Bank Indonesia, State-Owned Enterprises (BUMN), corporate investors, and or retail investors;
- c. determine sources of Budget financing originating from within and/or abroad;
- d. provide loans to the Deposit Insurance Corporation;
- e. prioritizing the use of budget allocations for certain activities (refoansing), adjusting allocations, and/or cutting/delaying the distribution of Transfer budgets to the Regions and Village Funds, with certain criteria;
- f. provide grants to Regional Governments; and/or
- g. simplification of mechanisms and simplification of documents in the field of state finances.

Suahasil Nazara (result of interview, 26 January 2022) explained that to respond to the extraordinary impact of Covid-19, extraordinary policies are needed so that fiscal management is more flexible, responsive and anticipatory, and accountable to support the handling of Covid-19 and economic recovery, so as to prevent deeper deterioration. This is an escape clause from the strict fiscal regulations stipulated in Law Number 17 of 2003.

If you look at the fiscal rules that have been applied to date, namely the fiscal rules contained in Law Number 17 of 2003, the author sees the need for changes to include effective escape clauses. Escape clauses are an integral component of fiscal rules and are only active when economic conditions experience a very severe or unprecedented crisis, which gives the government the flexibility to temporarily exceed certain limits, such as the fiscal deficit limit or debt limit, set by regulation. fiscal (Bandaogo, 2020).

Anggitto Abimanyu (result of interview, 16 February 2022) is of the opinion that the Amendment to Law Number 17 of 2003 to accommodate the escape clause policy is very necessary. The reason is that the current and future global conditions which are increasingly volatile and rapidly changing require macroeconomic stability policies that are fast, discretionary, countercyclical and flexible.

If you look at the impact of the crisis on the APBN in the last two crises, in 2008 the economic shock was not too big so that the resulting fiscal deficit also did not exceed the fiscal rule deficit limit of 3 percent. However, during the crisis in 2020, the shock to the economy was quite large and caused a sharp increase in the fiscal deficit to overcome the impact of the shock caused by the pandemic, so that the fiscal deficit exceeded the fiscal rule deficit limit of 3 percent.

Referring to the opinion expressed by Abhimanyu and Nazara, the appropriate escape clause is to provide an exception to the application of the fiscal rule regarding a fiscal deficit limit of 3 percent with certain criteria and using certain indicators which are considered to be a crisis condition. Thus, the fiscal discipline that is the goal of the existence of fiscal rules can be achieved.

5. Conclusions and Suggestions

Our research concludes that countercyclical fiscal policies made by the government are effective in dealing with economic crises both originating from economic shocks such as the 1997/1998 and 2008 crises, as well as non-economic shocks such as during the Covid-19 pandemic which began in early 2020. Policies discretionary measures implemented simultaneously with the automatic stabilizer policy were able to dampen the negative effects of economic and non-economic shocks. However, this effectiveness is greatly influenced by the escape clause policy made by the government. Even though we already have a crisis management law, the escape clause policy has not been really explained in detail and detail. So far, escape clauses have even been made when a crisis has hit, so the effect tends to be late and insignificant.

Therefore, based on the results of the author's research, the authors suggest that the government make changes to the state finance law by incorporating an escape clause policy as a contingency plan so that when the Indonesian economy is hit by a wave of crisis, the economic system will be able to deal with it by itself. This change must be agreed simultaneously by the government and the DPR as representatives of the people.

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