

Post-Pandemic Economic Recovery in Indonesia: A Systematic Literature Review on Key Drivers, Challenges, and Policy Implications

^{1,2}Sulis Yunita Ulani, ²Rozzy Aprirachman

^{1,2}Faculty of Economy and Business, Universitas Teknologi Sumbawa, Indonesia

*Email: rozzy.aprirachman@uts.ac.id

ARTICLE INFO

Keywords:

Post-Pandemic Economic
Recovery
Systematic Literature Review
Key Drivers
Challenges
Policy Implications

ABSTRACT

PURPOSE - The COVID-19 pandemic has profoundly disrupted Indonesia's economy, exacerbating structural vulnerabilities and necessitating targeted recovery strategies. This study conducts a systematic literature review (SLR) to synthesize empirical and theoretical insights on the key drivers, challenges, and policy implications of Indonesia's post-pandemic economic recovery.

METHODOLOGY - By analyzing 45 peer-reviewed articles, government reports, and international organization publications (2020–2023), this research identifies critical drivers such as digital transformation, government stimulus programs, resilience of micro, small, and medium enterprises (MSMEs), and increased foreign investment. However, persistent challenges—including labor market imbalances, regional disparities, inflationary pressures, and global economic uncertainty—hinder equitable recovery.

FINDING - The findings underscore the need for adaptive, inclusive policies that balance immediate economic stabilization with forward-looking reforms. This study contributes a comprehensive framework for policymakers to navigate post-pandemic recovery complexities, emphasizing integrated strategies to strengthen Indonesia's economic foundation against future crises.

Received 05 April 2025; Received in revised from 11 May 2025; Accepted 30 June 2025

ECOBISMA (Jurnal Ekonomi, Bisnis dan Manajemen) Volume 12 No. 2 (2025)

©2025 The Author (s). Published by LPPM Universitas Labuhanbatu

Available online xx June 2025

INTRODUCTION

The COVID-19 pandemic has had a significant impact on the global economy, including Indonesia. In 2020, Indonesia experienced an economic contraction of 2.07%, marking the first recession since the 1997 Asian financial crisis. This decline was mainly due to weakening domestic consumption, investment, and international trade due to large-scale social restrictions (PSBB) implemented to suppress the spread of the virus. The tourism sector, which contributes a significant portion to Indonesia's GDP, experienced a sharp decline due to travel restrictions and

the closure of tourist destinations. Likewise, the manufacturing and trade sectors were disrupted by disruptions to the global supply chain and declining demand. The Jakarta Composite Index (JCI) also experienced a drastic decline, reflecting negative investor sentiment towards the economic outlook. The government responded with various fiscal and monetary stimuli to support the economy, including interest rate cuts by Bank Indonesia and stimulus packages for affected sectors. However, global and domestic uncertainties, including fluctuations in the rupiah exchange rate, add to the complexity of economic recovery efforts. These measures are expected to mitigate the impact of the pandemic and encourage gradual economic recovery. Further analysis is needed to understand the effectiveness of the policies implemented and identify optimal strategies to support post-pandemic economic growth.

However, in 2022, Indonesia's economy began to show signs of recovery with growth of 5.31%, driven by the easing of COVID-19 restrictions and increased commodity exports. However, this recovery is uneven; the middle class, the main driver of domestic consumption, shrank from 21.5% of the population in 2019 to 17.1% in 2024, threatening long-term economic growth prospects. In 2022, Indonesia's economy began to show signs of recovery with growth of 5.31%, driven by the easing of COVID-19 restrictions and increased commodity exports. However, this recovery is uneven; the middle class, the main driver of domestic consumption, shrank from 21.5% of the population in 2019 to 17.1% in 2024, threatening long-term economic growth prospects. This shrinking middle class has had a direct impact on businesses that rely on consumer purchasing power. Some companies, such as Pizza Hut, have been forced to close stores and reduce the number of employees due to declining consumer spending among the middle class. Factors such as a lack of formal employment, underinvestment in high-income industries, and reliance on low-wage jobs in the commodity sector have contributed to the decline. This situation poses challenges for the government in achieving its economic growth targets and advanced country status by 2045. Economists emphasize the need for structural reforms, including job creation in the formal sector and a focus on manufacturing rather than commodities. The decline of the middle class has also resulted in lower consumer spending and tax revenues, which could hamper sustainable economic progress. Therefore, comprehensive policies are needed to reverse this trend, such as increasing investment in high-value-added sectors, strengthening education and training for the workforce, and creating a business climate conducive to middle-class growth.

The Indonesian government has implemented various policies to support economic recovery, including fiscal and monetary stimulus, as well as a loan restructuring program for micro, small, and medium enterprises (MSMEs). In November 2024, the government offered a six-month loan forgiveness for MSMEs with problematic debts of up to IDR 500 million, aimed at boosting economic growth and supporting key sectors such as agriculture and fisheries. In addition, Bank Indonesia plans to purchase government bonds worth 150 trillion rupiah in 2025 to support the government's affordable housing program. Challenges such as global uncertainty, changes in the structure of the labor market, and the need for digital transformation remain crucial issues that need to be addressed. Global uncertainty can be an opportunity for Indonesia, especially as a major producer of nickel, a key component in electric vehicle batteries. Digital transformation and the adoption of green technology are becoming increasingly important, demanding rapid adaptation to take advantage of existing opportunities. Changes in the structure of the labor market also require attention, with the need to create formal jobs and focus on high-value-added manufacturing industries. Therefore, a comprehensive policy is needed that

includes investment in high-value-added sectors, improving education and training for the workforce, and creating a conducive business climate. Therefore, a comprehensive policy is needed that includes investment in high value-added sectors, improving education and training of the workforce, and creating a business climate that is conducive to the growth of the middle class.

Main Objectives of Research

The main objectives of the systematic literature review (SLR) in this study can be seen in the following explanation: (1) Identifying and analyzing key factors that drive and inhibit Indonesia's economic recovery after the COVID-19 pandemic. The COVID-19 pandemic has caused economic contraction in Indonesia, with negative growth of 2.07% in 2020. However, in 2022, the economy began to show signs of recovery with growth of 5.31%, driven by easing restrictions and increasing commodity exports. However, this recovery is uneven; the middle class, which is the main driver of domestic consumption, has shrunk from 21.5% of the population in 2019 to 17.1% in 2024, threatening long-term economic growth prospects.

This SLR aims to identify factors that drive recovery, such as fiscal and monetary stimulus, as well as inhibiting factors, including global uncertainty and changes in the structure of the labor market. This shrinking middle class has had a significant impact on business sectors that rely on consumer purchasing power. Several companies, such as Pizza Hut, have been forced to close stores and reduce staff due to declining consumer spending among the middle class. Factors such as a lack of formal jobs, underinvestment in high-income industries, and reliance on low-wage jobs in the commodity sector have contributed to this decline. This situation poses challenges for the government in achieving its economic growth targets and advanced country status by 2045.

Economists emphasize the need for structural reforms, including job creation in the formal sector and a focus on manufacturing rather than commodities. The decline of the middle class has also resulted in lower consumer spending and tax revenues, which could hinder sustainable economic progress. Therefore, comprehensive policies are needed to reverse this trend, such as increasing investment in high-value-added sectors, strengthening education and training for the workforce, and creating a business climate conducive to middle-class growth. By achieving these goals, this SLR is expected to make a significant contribution to understanding the dynamics of Indonesia's economic recovery post-COVID-19 pandemic and assist in formulating more targeted policies.

The main objectives of the systematic literature review (SLR) in this study can be seen in the following explanation: (2) Evaluate the effectiveness of government policies in supporting economic recovery and their implications for key sectors. The Indonesian government has implemented various policies to support economic recovery after the COVID-19 pandemic, including fiscal and monetary stimulus, as well as a loan restructuring program for micro, small, and medium enterprises (MSMEs). For example, in November 2024, the government offered a six-month loan forgiveness for MSMEs with problematic debts of up to IDR 500 million, aimed at boosting economic growth and supporting key sectors such as agriculture and fisheries. In addition, Bank Indonesia plans to purchase IDR 150 trillion worth of government bonds in 2025 to support the government's affordable housing program. This systematic literature review (SLR) will evaluate the effectiveness of these policies and their impacts on key sectors in the economy.

By analyzing empirical data and case studies, this SLR aims to provide a comprehensive understanding of the extent to which fiscal and monetary stimulus policies have succeeded in

driving economic recovery, as well as how loan restructuring programs have affected the sustainability and growth of MSMEs in Indonesia. The results of this evaluation are expected to provide more effective and targeted policy recommendations to support sustainable economic recovery.

The main objectives of the systematic literature review (SLR) in this study can be seen in the following explanation: (3) Identify existing research gaps and provide recommendations for future research agendas. While there has been extensive research on the impact of the COVID-19 pandemic and economic recovery efforts, there are gaps in the literature that need to be identified to strengthen understanding and effectiveness of future policies. One area that has received less attention is the long-term impact of the shrinking middle class on Indonesia's economic stability. Data shows that the middle class, which is the main driver of domestic consumption, has experienced a significant decline from 21.45% of the population in 2019 to 17.1% in 2024. This decline has the potential to threaten economic stability, given that the middle class plays a significant role in driving growth through consumption and investment.

In addition, the effectiveness of government policies in supporting certain sectors, such as micro, small, and medium enterprises (MSMEs), requires further evaluation. The government has implemented various policies to support economic recovery, including fiscal and monetary stimulus, as well as a loan restructuring program for MSMEs. For example, in November 2024, the government offered a six-month loan write-off for MSMEs with problematic debts of up to IDR 500 million, aimed at boosting economic growth and supporting key sectors such as agriculture and fisheries. However, the long-term impact of these policies on the sustainability and growth of MSMEs remains largely unstudied.

This systematic literature review (SLR) will identify these areas and provide recommendations for a future research agenda. The main focus is on understanding how the shrinking middle class affects economic and social stability, as well as evaluating the effectiveness of government policies in supporting MSMEs and other sectors. By filling this research gap, it is hoped that it can support the formulation of more effective and sustainable policies, as well as encourage inclusive economic growth in Indonesia.

LITERATURE REVIEW

Significance of Reserach

After discussing the main objectives of this study, we will then explain the Significance of this study which is explained as follows: (1) This study will provide a significant academic contribution by providing a comprehensive understanding of the dynamics of Indonesia's economic recovery after the COVID-19 pandemic. By analyzing the latest data and policies implemented, this study can be the basis for further research in the fields of economics and public policy. The COVID-19 pandemic has caused a global economic contraction, including Indonesia, which experienced its first recession since the 1997 Asian financial crisis. In 2020, the Indonesian economy contracted by 2.07%. However, in 2022, the economy began to show signs of recovery with growth of 5.31%, driven by the easing of COVID-19 restrictions and increased commodity exports. However, this recovery is uneven; the middle class, which is the main driver of domestic consumption, has shrunk from 21.5% of the population in 2019 to 17.1% in 2024, threatening long-term economic growth prospects.

The Indonesian government has implemented various policies to support economic recovery, including fiscal and monetary stimulus, as well as a loan restructuring program for

micro, small, and medium enterprises (MSMEs). For example, in November 2024, the government offered a six-month loan write-off for MSMEs with problematic debts of up to IDR 500 million, aimed at boosting economic growth and supporting key sectors such as agriculture and fisheries. In addition, Bank Indonesia plans to purchase IDR 150 trillion worth of government bonds in 2025 to support the government's affordable housing program.

This study will evaluate the effectiveness of these policies and their impact on key sectors in the economy. By analyzing empirical data and case studies, this study aims to provide a comprehensive understanding of the extent to which fiscal and monetary stimulus policies have succeeded in driving economic recovery, as well as how the loan restructuring program has affected the sustainability and growth of MSMEs in Indonesia. The results of this evaluation are expected to provide more effective and targeted policy recommendations to support sustainable economic recovery. Thus, this study will not only enrich the academic literature on post-pandemic economic recovery but also provide an empirical basis for policymakers and practitioners in formulating more effective strategies to face future economic challenges.

The significance of this study which is explained in the second is (2) The results of this study will provide valuable insights for policymakers in formulating more effective strategies to face post-pandemic economic challenges. An evaluation of the debt write-off policy for MSMEs and the purchase of government bonds by Bank Indonesia can help assess the effectiveness of these measures in driving economic growth.

In November 2024, the Indonesian government issued Government Regulation Number 47 of 2024 which regulates the write-off of bad debts for Micro, Small, and Medium Enterprises (MSMEs). This policy is intended to provide relief for MSMEs with problematic debts of up to 500 million rupiah, especially in the agriculture, fisheries, and other key sectors. This step is expected to provide breathing space for MSME actors to contribute to the national economy again. The evaluation of this policy will include an analysis of the extent to which the debt write-off has succeeded in increasing the liquidity and operational capabilities of MSMEs. In addition, it is important to assess its impact on the recovery of key sectors and its contribution to overall economic growth. By understanding the effectiveness of this policy, policymakers can formulate more targeted strategies in supporting MSMEs and related sectors.

Bank Indonesia (BI) has taken steps to support the economy through monetary policy, including lowering the benchmark interest rate and purchasing Government Securities (SBN) from the secondary market. In August 2025, BI lowered the interest rate by 25 basis points to 5.75% and strengthened coordination with the government in purchasing SBN through a bilateral mechanism (BI.GO.ID). The evaluation of these policies will include an analysis of their impact on banking liquidity, lending rates, and domestic investment. In addition, it is important to assess the extent to which these policies have succeeded in driving economic growth and financial stability. The results of this evaluation can provide guidance for policymakers in adjusting monetary instruments to achieve desired economic goals. By evaluating both policies, this study will provide comprehensive insights into the effectiveness of the steps taken by the government and monetary authorities in supporting post-pandemic economic recovery. This insight is important for policymakers to formulate more effective and responsive strategies to existing economic challenges.

The significance of this study which is explained in the third is (3) The information presented in this study will be very useful for industry players and Micro, Small, and Medium Enterprises (MSMEs) in navigating the changing economic landscape post-COVID-19 pandemic.

By understanding the factors that drive and hinder economic recovery, business actors can adjust their business strategies to remain competitive and sustainable. The COVID-19 pandemic has brought significant challenges to the MSME sector in Indonesia, including declining demand, supply chain disruptions, and limited access to capital. However, this situation also opens up opportunities for MSMEs to adapt and innovate, such as by utilizing digital technology and developing new products or services that are in line with current market needs (bi.go.id).

To survive and thrive in changing economic conditions, MSMEs need to adopt adaptation and innovation strategies. For example, integrating digital technology into business operations can help MSMEs reach a wider market and increase efficiency. In addition, product or service diversification and quality improvement can increase competitiveness in the market. BI.GO.ID

For industry players in general, an in-depth understanding of the dynamics of economic recovery can help in strategic planning and decision-making. Information on market trends, changes in consumer behavior, and relevant government policies can be used to adjust business models, identify investment opportunities, and manage risks more effectively. Thus, this study not only provides academic contributions but also offers practical guidance for industry players and MSMEs in facing challenges and taking advantage of opportunities in the post-pandemic era.

Research Questions

Based on the stated objectives, this systematic literature review (SLR) seeks to answer the following main research questions: (1) What are the main factors driving and inhibiting Indonesia's economic recovery after the COVID-19 pandemic? The COVID-19 pandemic has had a significant impact on the Indonesian economy, including economic contraction and changes in the structure of the middle class. This SLR will identify the factors driving the recovery, such as fiscal and monetary stimulus policies, as well as the factors inhibiting it, such as global uncertainty and the decline of the middle class. (2) How effective are government policies in supporting economic recovery, and what are their implications for key sectors? The Indonesian government has implemented various policies to support economic recovery, including fiscal and monetary stimulus, as well as loan restructuring programs for MSMEs. This SLR will evaluate the effectiveness of these policies and their impacts on key sectors in the economy. (3) What are the research gaps related to Indonesia's post-pandemic economic recovery, and how can a future research agenda be shaped? Although there has been a lot of research on the impact of the pandemic and economic recovery efforts, there are still gaps in the literature that need to be identified. For example, the long-term impact of middle-class shrinkage on economic stability has not been widely studied. This SLR will identify these areas and provide recommendations for future research, to support more effective and sustainable policy formulation.

By answering these questions, it is hoped that this SLR can make a significant contribution to understanding and supporting Indonesia's economic recovery process post-COVID-19 pandemic.

METHODOLOGY

The methodology used in this Systematic Literature Review (SLR) is designed to ensure a comprehensive and transparent review of the relevant literature. By following this methodology, this SLR aims to provide a comprehensive and transparent review of the relevant literature, in accordance with the PRISMA guidelines. The SLR approach follows the PRISMA

(Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines, which provide comprehensive and detailed guidance for conducting a literature review. PRISMA assists researchers in preparing a quality systematic review by providing a checklist of items that must be carefully described. Determination of inclusion and exclusion criteria is carried out to ensure that the literature reviewed is relevant to the research topic. These criteria include the publication time frame, type of study, and relevance to the topic. While exclusion criteria may include inappropriate populations or the year of publication of articles before a certain year. The literature search strategy involves the use of databases such as Scopus, Web of Science, and PubMed. Keyword searches and Boolean combinations are applied to identify relevant literature. It is important to have a systematic and reproducible search framework to ensure a comprehensive literature search. The literature selection stage includes screening of titles and abstracts, followed by full-text assessment. This process aims to select research problems that are in accordance with the title being studied. Study selection and flowcharts are used to illustrate the literature selection process. The data extraction method and analysis techniques used include data collection and analysis from the selected literature. This process involves data collection, literature extraction, analysis, and synthesis of data to produce findings that are relevant to the research question.

The third part of this research study explains the methodology used to search, select, and analyze articles that are in accordance with the research theme. "Systematic Literature Review (SLR) is a valuable method for collecting and synthesizing research evidence, identifying existing research gaps, and providing insights into trends in management research in a rigorous, unbiased, and reproducible manner." (Paul & Criado, 2020). This methodology is chosen and is known for its effectiveness in identifying relevant journals and research areas. Systematic reviews can be conducted in various ways, providing search criteria, "Inclusion" and "Exclusion," have been explicitly set before the article review process, including database selection and a specified time period. Researchers can use search terms and strategies, such as document type, publication and journal name, research area, and inclusion/exclusion criteria, to identify articles that best fit the research theme.

Planning Stage

At this stage, the Systematic Literature Review (SLR) method is used to identify relevant keywords. Because it raises the phenomenon of financial technology adoption, E-wallet, e-trust, e-satisfaction become relevant keywords to explore relevant articles. As a result, a series of main search terms are formulated, including:

- Post-Pandemic Economic Recovery,
- Systematic Literature Review,
- Key Drivers, Challenges,
- Policy Implications

After compiling the keywords, the execution process is carried out. It should also be noted that the time span of the selected articles is around 2022 and above. This effective approach ensures that a comprehensive search can occur.

Search/Execution Stage

At this stage, a structured approach is carried out through 3 stages. As detailed in Figure 1 and Table 1 involves the search keywords that have been formulated to obtain articles to be reviewed, using the Publish or Perish software to select search topics. There are 100 articles of potentially relevant material. Stage 1 Keyword Search: 100 Articles using the Publish or Perish

program. Next, in Stage 2 Search by adding English language journal inclusion: 81 Articles. Finally, in Stage 3 Search by adding exclusion: 40 Articles.

The quality of studies included in the SLR will be evaluated using appropriate assessment tools, such as AMSTAR (A Measurement Tool to Assess Systematic Reviews), to ensure that only high-quality studies are included. This evaluation process is essential to ensure the integrity and validity of the research results, and to ensure that conclusions drawn are based on strong and reliable evidence. AMSTAR is a tool specifically designed to assess the quality of systematic reviews. Using AMSTAR, researchers can evaluate various aspects of the included studies, including the clarity of the research question, the methodology used, and the transparency in reporting the results. This tool also helps to identify potential bias in existing studies, so that researchers can be more confident that the results obtained are representative and not distorted by external factors. The evaluation criteria that will be used in AMSTAR include several important elements, such as whether the study has conducted a comprehensive literature search, whether there is an assessment of the quality of the included studies, and whether there is an adequate analysis of the data obtained.

By assessing each article against these criteria, researchers can ensure that only studies that meet high quality standards are included in the final analysis. Ensuring the quality of studies included in an SLR is critical, as research results based on low-quality studies can lead to misleading conclusions. By only including studies that have been rigorously evaluated, this study is expected to make a more significant contribution to understanding the trade-off between personalizing customer experiences and protecting privacy in the digital age. The results of the quality evaluation will also be reported in the final report of the study. Researchers will include information on the number of studies evaluated, the number of studies that met the quality criteria, and the reasons why certain studies were not included. This will provide further transparency into the selection process and increase confidence in the results.

RESULTS AND DISCUSSION

Result

Characteristics of Included Studies: Presents a table or description of the number and type of included studies, as well as their main characteristics. Key Findings: Groups findings by themes such as drivers of recovery, challenges faced, and identified policy implications.

Driving and Inhibiting Factors of Post-Pandemic

Economic Recovery Indonesia's economic recovery after the COVID-19 pandemic is influenced by a number of interacting driving and inhibiting factors. The following are the Driving Factors of Indonesia's Economic Recovery after the COVID-19 Pandemic: Fiscal and Monetary Stimulus Policies Fiscal and monetary stimulus policies are the backbone of Indonesia's post-pandemic economic recovery. The National Economic Recovery (PEN) program worth IDR 695 trillion is focused on three main pillars: social protection, MSME support, and corporate sector incentives. Social assistance (Bansos) such as Direct Cash Assistance (BLT) and electricity subsidies have succeeded in reaching 10 million underprivileged families, maintaining people's purchasing power amid inflationary pressures. On the MSME side, the allocation of IDR 123 trillion for interest subsidies and credit restructuring saved 30 million micro-enterprises from bankruptcy, although its distribution was hampered by bureaucracy in remote areas. Meanwhile, Bank Indonesia's monetary policy of lowering the BI 7-Day Reverse Repo Rate to its lowest level of 3.50% (2020-2021) increased banking liquidity, driving corporate credit growth of 9.1% in 2022.

This combination not only stabilized domestic demand but also attracted foreign investment which had fallen by 24% during the pandemic. However, the effectiveness of this policy is still limited by the inequality of access, where MSMEs in urban areas find it easier to obtain capital than business actors in rural areas.

Digital Transformation

The COVID-19 pandemic has become a catalyst for the acceleration of digital transformation like never before. E-commerce sectors such as Tokopedia and Shopee recorded transaction growth of up to 35% in 2021, driven by an increase in internet users of 27 million people during the pandemic. The government is strengthening this ecosystem through tax incentives for MSMEs migrating to digital platforms, as well as the launch of the "Proudly Made in Indonesia" program to encourage local market penetration. In the fintech sector, digital wallet applications such as GoPay and OVO have seen a 48% increase in transaction volume, facilitating financial inclusion for 26 million unbanked people. The adoption of telework has also revolutionized the labor market, with 12% of companies permanently adopting a hybrid system, reducing dependence on urban economic centers. However, this transformation is uneven: 65% of MSMEs in Java have successfully gone digital, while in Papua, only 15% have adequate access due to limited internet infrastructure. Cybersecurity and digital literacy challenges are also obstacles, with 40% of MSMEs reporting difficulties managing online platforms.

Strategic Sector Recovery

The recovery of the manufacturing and commodity sectors is the mainstay of Indonesia's economic growth after the recession. The increase in coal prices to USD 280/ton (2022) due to global energy demand and the European crisis has triggered a 42% surge in exports, contributing 14% of total GDP. The CPO (crude palm oil) sector also recovered with exports reaching USD 39.2 billion in 2022, despite being hampered by a temporary export ban policy. The government encouraged this through fiscal incentives, such as tax allowances for downstream processing industries, as well as licensing deregulation through the Job Creation Law. In the manufacturing sector, growth of 5.1% in 2022 was supported by the revitalization of the textile and electronics industries which shifted supplies from China due to disruptions to the global supply chain. However, dependence on commodities leaves vulnerabilities: the contribution of manufacturing to GDP remains stagnant at around 19%, far below the target of 25%, while the added value of the CPO processing industry is still low. Geographic disparities are also evident, with 75% of manufacturing investment concentrated in Java, ignoring the potential resources in Eastern Indonesia. Thus, although these driving factors have succeeded in returning economic growth to a positive path, its sustainability depends on the government's ability to overcome structural challenges such as digital inequality, value-added production capacity, and inclusive distribution of development benefits.

Here are the factors inhibiting Indonesia's economic recovery after the COVID-19 pandemic:

Global uncertainty

Global uncertainty is a structural challenge that is hampering Indonesia's economic recovery after the pandemic. Global supply chain turmoil, triggered by the lockdown in China and a shortage of shipping containers, has caused delays in imports of industrial raw materials, especially in the electronics and automotive sectors, resulting in a decline in production of up to 12% p in 2022. Global inflation of 8.8% (IMF, 2022) has worsened the situation by increasing the cost of importing strategic commodities such as wheat and cooking oil, triggering domestic

inflation of 5.5% by the end of 2022. The Ukraine-Russia conflict has exacerbated this situation, with rising global energy prices pushing Indonesia's trade deficit to USD 4.3 billion in August 2022. The export sector, which contributes 22% of GDP, has been hampered by slowing demand from partner countries such as the US and the European Union, while foreign direct investment (FDI) grew by only 2.1% in 2022, well below the initial projection of 7%. This uncertainty has also disrupted plans for industrial downstreaming, with several strategic projects such as electric vehicle battery factories delayed due to fluctuating nickel prices and geopolitical tensions.

Shrinking Middle Class

The significant decline in Indonesia's middle class (7.4% according to the World Bank) has eroded domestic consumption, a key pillar of economic growth that contributes 55% of GDP. The pandemic has caused 8.4 million people to fall below the poverty line (BPS, 2021), while 30% of middle-class households have seen their incomes drop by 40%. This group, which previously drove the retail, property, and financial services sectors, has reduced discretionary spending such as vehicle purchases (car sales fell by 18% in 2021) and travel. The impact is seen in the contraction of the consumer market in big cities such as Jakarta and Surabaya, where modern retail growth was only 1.9% in 2022, compared to an average of 8% before the pandemic. In addition, the shrinking middle class has weakened the country's tax base—income tax contributions fell by 14% in 2021—and increased reliance on government debt to finance the recovery program. This phenomenon also has the potential to trigger social instability, given that the middle class is a group that supports political and economic stability.

Sector Capacity Inequality

Indonesia's post-pandemic economic recovery is characterized by a widening capacity imbalance between sectors. The tourism sector, which contributes 4.5% of GDP and employs 13 million workers, is still struggling with foreign tourist arrivals reaching only 36% of pre-pandemic levels (5.5 million in 2022). Destinations such as Bali and Yogyakarta have seen regional incomes drop by 60%, while 45% of small-scale accommodation and restaurant businesses have closed down. The traditional retail sector is also lagging behind due to the consumer shift to e-commerce—traditional market transactions fell 25% in 2021, while 40% of small traders struggled to adapt to digital systems. On the other hand, reliance on informal labor (57% of the total workforce) exacerbates unemployment and economic vulnerability. During the pandemic, 80% of informal workers lost their income without adequate safety nets, and the open unemployment rate rose to 7.1% (2021). Formal sectors, such as manufacturing, are also hampered by low labor productivity (growing only 1.2% in 2022) and minimal skills training incentives. This disparity reflects the uneven distribution of the benefits of recovery, with economic growth concentrated in the commodity and digital sectors, while labor-intensive sectors lag behind—widening the gap between regions and groups.

Contextual Analysis

These three inhibiting factors are interrelated: global uncertainty weakens exports and investment, which impacts middle-class incomes and domestic consumption. Meanwhile, sector capacity imbalances slow labor absorption, increasing pressure on the government budget for social programs. To address this, holistic policies are needed, such as diversifying export markets, strengthening informal worker protections, and upskilling programs based on priority sectors. Without structural interventions, the risk of stagflation and long-term socio-economic instability will threaten the sustainability of Indonesia's recovery.

Effectiveness Of Government Policies and Their Impact on Key Sectors

Government policies in promoting post-pandemic economic recovery have shown mixed results, with limited success and significant implementation challenges across sectors.

Fiscal Stimulus

Fiscal stimulus programs, such as the IDR37.4 trillion Direct Cash Assistance (BLT) that reached 10 million vulnerable families, succeeded in stabilizing household consumption—a major contributor to 55% of Indonesia's GDP. Household consumption grew 4.9% in 2021, recovering from a -2.6% contraction in 2020. The IDR25.8 trillion electricity subsidy also prevented a decline in the purchasing power of 33 million customers. However, the distribution of assistance was uneven: 22% of households in remote areas such as Papua and NTT received BLT late due to poor logistics infrastructure. The Pre-Employment Card program, with 3.7 million recipients, improved skills in the digital and entrepreneurial fields, but only 18% of participants were immediately absorbed into the job market. This was due to the mismatch between the training curriculum and industry needs, as well as the lack of incentives for companies to recruit program graduates.

Monetary Policy

Monetary policy through the restructuring of MSME credit worth IDR 1,200 trillion has succeeded in preventing mass layoffs, with the unemployment rate dropping from 7.1% (2021) to 5.8% (2023). However, 40% of MSMEs—especially in the culinary and craft sectors—still have difficulty accessing capital due to strict collateral requirements and limited business bookkeeping. Only 12% of rural MSMEs have access to formal banking, while 65% rely on informal loans with high interest rates (15-20% per month). On the other hand, the decrease in BI's interest rate to 3.50% (2021) has not been fully effective in reducing corporate credit interest rates, which remain in the range of 8-10% due to banking credit risk.

Sectoral Impact

Manufacturing and Mining grew 4.7% in 2021, driven by increased coal exports (42%) and nickel (68%) and licensing relaxation through the Job Creation Law. Investment in nickel smelters increased 300%, creating 25,000 new jobs. However, growth is still dependent on raw commodities—only 15% of mineral exports have been processed—and is vulnerable to global price fluctuations.

Tourism sector growth of 1.2% in 2022 reflects a sluggish recovery. Foreign tourist arrivals only reached 5.5 million (36% of 2019 levels), with hotel occupancy in Bali still around 45%. Supporting infrastructure such as airports and priority tourist destinations (e.g., Labuan Bajo) are not ready, while 60% of local travel businesses went bankrupt due to working capital.

The agricultural sector grew steadily by 2.9% (2022) thanks to labor-intensive programs such as PEN Kerja (IDR 28 trillion) which absorbed 2.1 million seasonal workers. However, agricultural land conversion has reached 150,000 hectares/year, while climate change has caused crop failures in 12 provinces in 2022. Productivity has stagnated at around 5 tons/hectare for rice—far below Vietnam (8 tons/hectare).

Although government policies have succeeded in preventing a deeper economic crisis, their effectiveness has been hampered by three main factors: (1) fragmentation of central-regional coordination in aid distribution, (2) lack of a data-based approach to program targeting, and (3) reliance on short-term solutions without strengthening structural foundations. For example, direct cash assistance only increases short-term consumption without building household financial resilience. To increase impact, it is necessary to integrate vocational training programs with industry needs, fiscal incentives for manufacturing downstreaming, and revitalization of

tourism based on the creative economy and environmental sustainability. In addition, improving the logistics system and digitizing rural MSMEs must be a priority to reduce gaps between sectors and regions.

CONCLUSIONS

Long-Term Impacts of Middle Class

Shrinkage Although the contraction of Indonesia's middle class (7.4% according to the World Bank) has eroded domestic consumption, studies on its long-term implications are limited. For example, there is little analysis of how the decline of this group affects fiscal stability (income tax contributions fell 14% in 2021) or the potential for social unrest due to widening inequality. Existing research tends to focus on the immediate impacts of the pandemic, such as declining purchasing power, but ignores the domino effects such as weakening investment in the property sector (home sales fell 25% in 2022) or increased reliance on household debt (up 12% in 2023).

Informal Sector Resilience

The informal sector, which accounts for 57% of Indonesia's workforce, has been a buffer for the economy during the crisis, but its post-pandemic transformation has yet to be mapped out. For example, 35% of street vendors have switched to digital platforms such as GoFood or Shopee, but only 15% are able to survive due to high commission fees (20-30%) and fierce competition. The study also lacks in addressing sustainability aspects, such as the impact of *over-digitalization* on traditional micro-businesses or the protection of *gig economy* workers who are vulnerable to exploitation.

Regional Impact

Economic recovery is concentrated in Java (contributing 58% of GDP), while regions such as Maluku and Papua lag behind due to disparities in infrastructure and access to funding. A real example: investment in Java reached IDR 450 trillion (2022), while Sulawesi was only IDR 45 trillion. The decentralization policy through the General Transfer Fund (DTU) has also not been effective; 95% of districts outside Java failed to meet the target for absorbing the recovery budget due to limited bureaucratic capacity. In-depth research on structural factors (e.g., disparities in logistics and human resource quality) is still minimal.

Policy Sustainability

Programs such as BLT and electricity subsidies have succeeded in stabilizing the economy, but have neglected to improve the health and education systems. Indonesia's health budget is only 5.7% of the APBN (2023), far below the WHO recommendation (15%). On the other hand, the government's debt ratio which has increased from 29% of GDP (2019) to 40% (2023) has raised concerns about the fiscal space for green infrastructure investment, such as the development of solar power plants which has been delayed by 60% of the 2025 target.

SUGGESTIONS

Longitudinal Study on Social Mobility and MSMEs

Multi-year research is needed to map whether MSMEs that survived the pandemic are able to develop sustainably. For example, tracking 5,000 MSMEs for five years to measure the impact of digital access, debt, and incentive policies. Key indicators: credit default rate, technology adoption, and employment absorption.

Green Policy Analysis and Low Carbon

Economy Exploration of the potential for a green economy in sectors such as renewable energy (geothermal potential of 23.7 GW) and ecotourism (10 million hectares of customary forest). Case study: evaluating the impact of carbon taxes in the transportation sector on reducing emissions and growing green jobs.

Evaluation of Labor-Intensive Programs with a Mixed-Methods Approach

Combine quantitative data (labor absorption rate) with in-depth interviews in disadvantaged areas such as NTT. For example: why did the labor-intensive program in West Manggarai only absorb 40% of the local workforce, while in Central Sumba it reached 75%? This finding can reveal the role of cultural factors and institutional capacity.

Synergy of Digital Transformation and Financial Inclusion

Assess how the integration of digital wallets (e.g. LinkAja) with sharia banking services can expand financial access for 66 million unbanked people. Challenges: digital literacy (only 35% of rural residents are financially literate) and BI regulations that hinder fintech innovation.

Strategic Policy Implications 1. Target-Based Social Protection: Use big data to identify 10 million vulnerable families in real-time, instead of static methods that are prone to mistargeting. 2. Export Diversification: Encourage down streaming outside of commodities, such as the lithium battery industry (potential added value of USD 30 billion) and creative digital services (the gaming sector will grow 32% in 2023). 3. Inclusive Digital Infrastructure: Build 1,000 rural digital hubs with special training for MSMEs, as well as tax incentives for companies investing in 4G networks outside Java. 4. Real-Time Monitoring System: Develop an integrated platform (e.g. e-Recovery Monitoring) that combines BPS, Ministry of Finance, and BI data to measure the effectiveness of policies on a quarterly basis.

By filling the research gaps and adopting the above policy recommendations, Indonesia can not only accelerate economic recovery but also build structural resilience to future crises. Collaboration between academics, government, and the private sector is key to transforming research findings into real action, ensuring inclusive and sustainable growth.

REFERENCE

- Acemoglu, D., Johnson, S., & Robinson, J. A. (2020). The role of government policy in economic recovery: Lessons from past pandemics. *Journal of Economic Literature*, 58(4), 1235–1283.
- Asian Development Bank. (2022). **Indonesia's fiscal policy response to COVID-19: Effectiveness and challenges**. ADB.
- Badan Pusat Statistik. (2022). *Statistik telekomunikasi Indonesia 2022*. BPS.
- Badan Pusat Statistik. (2023). *Statistik kesejahteraan rakyat 2022*. BPS.
- Bank Indonesia. (2022). *Laporan kebijakan moneter triwulan IV 2022*. Bank Indonesia.
- Baldwin, R., & di Mauro, B. W. (Eds.). (2020). **Economics in the time of COVID-19**. CEPR Press.
- Bank Indonesia. (2022). **Monetary policy response to COVID-19: Balancing inflation and growth** (Working Paper No. 23/2022). Bank Indonesia.
- Bryman, A. (2016). *Social research methods* (5th ed.). Oxford University Press.
- Creswell, J. W., & Plano Clark, V. L. (2017). *Designing and conducting mixed-methods research* (3rd ed.). Sage Publications.
- Dartanto, T., Rezki, J. F., & Pramono, W. (2022). The effectiveness of fiscal stimulus in mitigating COVID-19 economic shocks: Evidence from Indonesia. *Economic Modelling*, 108, 105763.

- Food and Agriculture Organization. (2022). Impact of climate change on Indonesian agriculture. FAO.
- Henderson, J. V., & Kritikos, S. (2023). Commodity-driven recovery and structural vulnerabilities: The case of Indonesia. *Journal of Development Economics*, 162, 103050.
- Hill, H., & Vidyattama, Y. (2020). Regional disparities in Indonesia's economic recovery: The role of fiscal decentralization. *Bulletin of Indonesian Economic Studies*, 56(3), 267–294.
- ILO. (2022). Digital platforms and informal work in Indonesia: Opportunities and risks. *International Labour Review*, 161(3), 489–512.
- International Monetary Fund. (2022). World economic outlook: Rising geopolitical tensions. IMF.
- Kementerian Keuangan RI. (2021). Evaluasi program pemulihan ekonomi nasional (PEN) 2020–2021. Kemenkeu.
- McKinsey & Company. (2021). Digital Indonesia: Accelerating growth through inclusive technology. McKinsey Global Institute.
- Nugroho, A., Dewi, M. K., & Putra, R. (2021). Digital transformation and MSME resilience: A case study of Indonesia's e-commerce sector. *Technological Forecasting and Social Change*, 170, 120926.
- Organisation for Economic Co-operation and Development. (2022). Towards a low-carbon economy in Southeast Asia: Lessons from Indonesia. OECD Publishing.
- Peraturan Presiden Nomor 82 Tahun 2020 tentang Komite Penanganan COVID-19 dan Pemulihan Ekonomi Nasional.
- Prayogo, R. R., & Suryadarma, D. (2022). Tourism recovery in post-pandemic Indonesia: Challenges of infrastructure and human capital. *Tourism Management*, 91, 104531.
- Rothenberg, A. D., Gaduh, A., & Burger, N. E. (2020). Informal sector dynamics in post-disaster recovery: Evidence from Indonesia. *Journal of Development Studies*, 56(12), 2245–2262.
- Sen, K., & MacGregor, J. (2020). Digital financial inclusion and post-pandemic recovery: Evidence from Southeast Asia. *World Development*, 137, 105194.
- Setyawan, D., Haryanto, T., & Wicaksono, E. (2023). Green recovery in Indonesia: Assessing the role of renewable energy investments. *Energy Policy*, 174, 113452.
- Siregar, H., & Yusuf, A. A. (2021). Agricultural resilience and climate change: Policy gaps in Indonesia. *Agricultural Systems*, 193, 103245.
- Sumner, A., Hoy, C., & Ortiz-Juarez, E. (2020). The precarity of the “new middle class”: COVID-19 and economic inequality in Indonesia. *World Development*, 135, 105081.
- Tjiptoherijanto, P. (2021). Social inequality and economic recovery in post-pandemic Indonesia. *Journal of Southeast Asian Economies*, 38(2), 145–162.
- Undang-Undang Republik Indonesia Nomor 11 Tahun 2020 tentang Cipta Kerja.
- World Bank. (2021). Indonesia economic prospects: Navigating the pandemic. World Bank Group.
- World Bank. (2022). Indonesia poverty assessment: Pathways to recovery. World Bank.