Jurnal Penelitian Hukum Ekonomi syariah

Indonesia's Fiscal Policy in the Midst of Recession and Post-Pandemic Recovery Reviewed from an Islamic Fiscal Perspective

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Abstract

The economic recession and public welfare challenges during 2020-2024 required Indonesia to implement comprehensive fiscal strategies to stabilize the economy and support recovery. This study evaluates Indonesia’s fiscal policies from the perspective of Islamic fiscal principles. Using a qualitative-descriptive approach, the research examines Indonesia’s fiscal policies, focusing on state revenue, spending, and deficit management. These policies are compared with Islamic fiscal principles derived from classical Islamic governance and the thoughts of modern Muslim economists. Indonesia’s fiscal policies align with Islamic principles in key areas, such as countercyclical spending to support public welfare and economic recovery, including allocations for health, social protection, and MSME support. However, significant gaps exist in revenue generation and deficit financing. While Indonesia relied on taxation and interest-based loans, Islamic fiscal principles advocate redistributive tools like zakat and sharia-compliant financing mechanisms, such as Sukuk. The findings highlight Indonesia’s partial alignment with Islamic fiscal principles, particularly in prioritizing welfare spending. Yet, the absence of zakat and reliance on interest-bearing debt underscore the need for adopting Islamic fiscal instruments. Integrating such tools could enhance fiscal equity and sustainability while adhering to maqasid al-shari’ah principles. Indonesia’s fiscal policies during the economic recession and recovery reflect efforts to address economic challenges and prioritize public welfare. However, adopting Islamic fiscal instruments like zakat and sukuk could strengthen alignment with Islamic principles, fostering more equitable and sustainable economic resilience.

Keywords: Fiscal policy, economic recession, economic recovery, Islamic fiscal principles, Indonesia.

Abstrak

Resesi ekonomi dan tantangan kesejahteraan masyarakat selama tahun 2020-2024 menuntut Indonesia untuk menerapkan strategi fiskal yang komprehensif guna menstabilkan perekonomian dan mendukung pemulihan. Studi ini mengevaluasi kebijakan fiskal Indonesia dari perspektif prinsip fiskal Islam. Dengan pendekatan deskriptif-kualitatif, penelitian ini menganalisis kebijakan fiskal Indonesia, yang mencakup aspek pendapatan negara, belanja negara, dan pengelolaan defisit fiskal. Kebijakan tersebut dibandingkan dengan prinsip fiskal Islam yang diambil dari praktik pemerintahan Islam klasik dan pemikiran para ekonom Muslim modern. Kebijakan fiskal Indonesia menunjukkan keselarasan dengan prinsip Islam di beberapa area utama, seperti pengeluaran countercyclical untuk mendukung kesejahteraan masyarakat dan pemulihan ekonomi, termasuk alokasi untuk kesehatan, perlindungan sosial, dan dukungan UMKM. Namun, terdapat kesenjangan signifikan dalam aspek penghasilan negara dan pembiayaan defisit. Sementara Indonesia mengandalkan pajak dan pinjaman berbasis bunga, prinsip fiskal Islam menganjurkan penggunaan instrumen redistributif seperti

zakat dan mekanisme pembiayaan syariah seperti sukuk. Temuan ini menyoroti keselarasan parsial kebijakan fiskal Indonesia dengan prinsip Islam, khususnya dalam memprioritaskan pengeluaran untuk kesejahteraan. Namun, ketiadaan zakat dan ketergantungan pada utang berbasis bunga menggarisbawahi perlunya adopsi instrumen fiskal Islam. Integrasi alat-alat tersebut dapat meningkatkan kesetaraan dan keberlanjutan fiskal sambil tetap mematuhi prinsip maqasid al-shari'ah. Kebijakan fiskal Indonesia selama resesi ekonomi dan pemulihan mencerminkan upaya untuk menghadapi tantangan ekonomi dan memprioritaskan kesejahteraan masyarakat. Namun, adopsi instrumen fiskal Islam seperti zakat dan sukuk dapat memperkuat keselarasan dengan prinsip Islam, menciptakan ketahanan ekonomi yang lebih adil dan berkelanjutan.
Kata Kunci*: Kebijakan fiskal, resesi ekonomi, pemulihan ekonomi, prinsip fiskal Islam, Indonesia.*

Introduction

The economic cycle alternates between periods of expansion and recession, reflecting the dynamic nature of global and domestic economies (Barras, 2009; Kose & Terrones, 2015). This study examines Indonesia's fiscal policies during the economic recession caused by the COVID-19 pandemic and the subsequent post-pandemic recovery phase. Although the pandemic officially ended in 2023, its socio-economic impacts—such as inflation, disrupted supply chains, and prolonged fiscal deficits—continue to challenge both global and national economies. These dual challenges underscore the importance of analyzing Indonesia's fiscal policies, both during the pandemic and in the recovery phase, through the lens of Islamic fiscal principles.

The COVID-19 pandemic has led to a significant global economic recession, affecting countries across America, Europe, Africa, and Indonesia. In the United States, the economy contracted by 3.5% in 2020 (The White House, 2022). European nations such as Germany and the United Kingdom experienced 5% and 9.7% contractions, respectively (Harari & Matthew Keep, 2021; Office for National Statistics, 2021). In Africa, the pandemic resulted in the continent's worst recession in over 50 years, with GDP declining by 2.1% in 2020 (AFDB, 2021). Meanwhile, Indonesia's economy shrank by 2.07% in 2020 (Aljazeera, 2021). These impacts highlight the extensive effects of the pandemic on the global economy, leading to decreased economic growth, increased unemployment, and financial uncertainty worldwide.

The recession was driven by several factors, including the trade war between the United States and China and the outbreak of the COVID-19 pandemic (Abdi, 2020). The trade war disrupted global trade activities and negatively impacted domestic economies worldwide (Miraza, 2019). These shocks triggered rapid economic contractions for countries with high dependence on global markets, such as Indonesia. The weak demand and reduced global trade activities also resulted in prolonged low commodity prices, disproportionately affecting developing countries that rely on exports of raw materials and mining products (Badan Kebijakan Fiskal, 2020).

Indonesia experienced GDP growth of only 5.02% during the pandemic, hindered by declining investment, reduced exports, and constrained government consumption (Badan Pusat Statistik, 2022). Fiscal policies implemented by the government to address these issues, including deficit spending, became critical in mitigating the economic downturn (Bank Indonesia, 2021; Ministry of Finance, 2023). However, the pandemic-induced fiscal deficit further strained Indonesia's budgetary health. As the country transitions into the post-pandemic recovery phase, fiscal strategies remain pivotal in achieving sustainable economic growth.

Several studies have previously explored fiscal policies during the pandemic. For instance, Syadza et al. (2021) highlighted the appropriateness of contractionary fiscal policies in overcoming recessions based on the IS-LM model. Saputra et al. (2021) proposed implementing Islamic fiscal principles to address economic challenges, focusing on fiscal policies derived from Islamic governance history. Similarly, Aprilia (2020) examined how Islamic principles could enhance national income through approaches such as swap (zakat, infaq, sadaqah, and waqf) empowerment. While these studies provide valuable insights, there remains a gap in the literature addressing Indonesia's fiscal policy from a comprehensive Islamic fiscal perspective, particularly during the post-pandemic recovery phase (Apriliana, 2020; Saputra et al., 2021; Syadza et al., 2021). While these studies provide valuable insights, there remains a gap in the literature addressing Indonesia's fiscal policy from a comprehensive Islamic fiscal perspective, particularly during the post-pandemic recovery phase.

This study aims to fill this gap by analyzing Indonesia's fiscal policies during the pandemic and post-pandemic recovery using Islamic fiscal principles. Specifically, it seeks to address the following questions: (1) How did Indonesia's fiscal policies during the economic recession and COVID-19 pandemic address issues of state revenue and expenditure? (2) What is the concept of Islamic fiscal policy in the context of economic recession and post-pandemic recovery? (3) How can Indonesia's fiscal policies during and after the pandemic be evaluated through the framework of Islamic fiscal principles?

The novelty of this research lies in its formulation of Islamic fiscal policy concepts, derived from the historical perspectives of Islamic governance and the contributions of both classical and modern Muslim economists. These concepts are applied as analytical tools to assess Indonesia's fiscal strategies during the pandemic and subsequent recovery phases. This evaluation aims to determine how these policies align with Islamic fiscal principles while offering recommendations for more equitable and sustainable fiscal practices in Indonesia.

Methods

This qualitative study uses two approaches: Islamic economic history and Islamic economic law (Kahf, 2019). The Islamic economic history approach examines fiscal policies implemented during the time of the Prophet Muhammad and subsequent caliphates, as well as the contributions of Muslim economists like Ibn Khaldun, Abu Yusuf, and Al-Mawardi in addressing economic challenges. The Islamic economic law approach is used to analyze the alignment of Indonesia's fiscal policies during the economic recession and COVID-19 pandemic—specifically in state revenue and expenditure—with the principles of Islamic economic law.

Data sources include primary and secondary data. Primary data is derived from the State Budgets (APBN) for 2020-2024, offering a comprehensive view of Indonesia's fiscal policies. Secondary data is sourced from related literature, reports, and historical documents that reflect the principles of Islamic fiscal policy as outlined by Kahf. The analysis employs a comparison matrix to systematically evaluate the congruence between Indonesia's fiscal policy and Islamic fiscal principles, highlighting alignment, divergence, and opportunities for integrating sharia-compliant practices.

Indonesia's Fiscal Policy Concept Amidst Economic Recession and the Covid-19 Pandemic

Indonesia's fiscal policy during the economic recession and COVID-19 pandemic was characterized by a countercyclical approach aimed at mitigating the economic downturn, stabilizing public welfare, and fostering recovery (Indrawati et al., 2024). This approach marked a significant shift in fiscal management, leveraging deficit spending to address the unprecedented challenges posed by the pandemic.

In response to the economic challenges posed by the COVID-19 pandemic, the Indonesian government implemented countercyclical fiscal measures to mitigate the downturn and support recovery. This strategy involved relaxing the 3% GDP deficit cap under Law No. 17/2003, as Perppu No. 1/2020 permitted the government to widen the deficit to 6.34% of GDP in 2020 to fund pandemic responses (Government of Indonesia, 2020). The National Economic Recovery (PEN) program was launched, allocating significant resources to health services, social protection, and economic recovery, mainly targeting MSMEs and vulnerable sectors (ASEAN Briefing, 2020).

The Indonesian government prioritized fiscal spending on health services, social protection, economic recovery, and infrastructure development to mitigate the COVID-19 pandemic's impact and support recovery. Resources were directed toward pandemic management, cash assistance, and food aid for vulnerable groups, while MSMEs and corporations received support through tax incentives and capital injections. Infrastructure projects continued to ensure long-term stability and sustainable growth.

The Indonesian government implemented various revenue adjustment measures to complement its increased spending during the COVID-19 pandemic. Tax incentives were a significant part of this strategy, including providing VAT refunds, tax allowances, and reduced import duties for raw materials critical to production. These incentives aimed to alleviate the financial burden on businesses, encourage economic activity, and sustain revenue collection amid declining economic performance. Additionally, the government sought to optimize non-tax revenue by enhancing efficiency in managing resources like oil, gas, and dividends from state-owned enterprises, ensuring a steady flow of income to support its fiscal policies.

Despite these efforts, the expansive fiscal measures introduced to mitigate the pandemic's impacts created fiscal challenges. The growing debt-to-GDP ratio highlighted the increased fiscal burden, as the government relied heavily on deficit financing to fund its recovery initiatives. This situation underscored the need for prudent fiscal management to balance immediate recovery efforts with long-term fiscal sustainability. Addressing these challenges required not only effective debt management but also strategic planning to ensure that fiscal policies supported sustainable growth while maintaining economic stability over the long term.

Two significant challenges faced by the Indonesian government in 2020-2021 are the economic recession and the Covid-19 pandemic. These two things emerged simultaneously, so the government is required to move quickly and concretely so that these two things do not significantly impact the welfare and health of the people on both micro and macro scales. One instrument that is very likely to be used is fiscal policy, namely by modifying policies related to both state revenue and spending (Badan Kebijakan Fiskal, 2020, 2021).

In 2021, the Indonesian government focused its policies on three main aspects to accelerate economic recovery and control the COVID-19 pandemic:

1. Health Interventions: The government prioritized COVID-19 vaccination, improved healthcare access and quality, strengthened central-regional coordination, and developed a health preparedness system to enhance pandemic response and build a resilient healthcare sector.
2. Business Support: Economic recovery measures included countercyclical fiscal policies, stimulus for affected sectors like food and tourism, expanded social benefits, and support

for UMKM through easier capital access, aiming to restore economic activity and support vulnerable communities.

3. Structural Reforms: Structural reforms were implemented to improve the business and investment climate, foster innovation, and enhance national competitiveness. Guided by Law No. 11 of 2020 on Job Creation, the government streamlined procedures to attract domestic and foreign investors, address regulatory bottlenecks, and support long-term growth (Law, 2020). These measures aimed to build a strong, adaptable bureaucratic foundation, balancing immediate economic challenges with structural improvements to ensure a resilient and sustainable recovery.

Government Fiscal Policy Regarding State Revenue

In 2020, the government's fiscal policy on state revenue prioritized addressing the economic challenges posed by the COVID-19 pandemic while maintaining revenue generation. Tax adjustments included incentives to alleviate burdens on businesses, particularly MSMEs, with measures such as VAT reductions on essential goods and income tax relief for pandemic-affected sectors. Non-tax revenue (PNBP) was optimized by managing natural resources, including oil and gas, despite declining global demand, alongside temporary rate reductions for specific industries to stimulate activity. Additionally, the government mobilized international grants and external support to complement domestic revenue, enabling the funding of critical health and economic recovery programs. This countercyclical approach balanced revenue collection with relief measures, ensuring adequate resources to support public services, healthcare, and social safety nets during the crisis (Badan Kebijakan Fiskal, 2020).

Government fiscal policy on state revenue focuses on three main components: taxes, non-tax state revenue (PNBP), and grants. To support economic recovery, the government implemented tax incentives such as accelerated VAT refunds to improve business cash flow, DTP taxes for specific sectors to boost competitiveness, and PPh 22 import incentives to facilitate raw material imports for industries affected by the pandemic. Tax holidays and allowances were introduced to attract investment, foster economic diversification, create jobs, and accelerate regional development. Customs incentives streamlined import and export processes, fulfilled raw material needs, and relaxed regulations for Bonded Zones (KB) and Export Destination Import Facilities (KITE). Additionally, efforts to strengthen state revenue included improving the national logistics ecosystem, reducing delivery costs and times, and developing integrated excise monitoring and smart customs systems. These comprehensive measures aimed to enhance revenue mechanisms, foster competitiveness, and build economic resilience amidst challenging conditions. (Badan Kebijakan Fiskal, 2021).

Fiscal policy related to non-tax state revenue (PNBP) focuses on several strategic initiatives to enhance revenue collection and efficiency. These include improving PNBP regulations to ensure better compliance and optimization. Efforts to optimize oil and gas lifting are implemented by creating a more favorable investment climate in the oil and gas sector while maintaining cost recovery control. Additionally, the government seeks to maximize dividend receipts by enhancing the performance of state-owned enterprises (BUMN). PNBP incentives are provided with rates as low as Rp. 0 or 0% to support specific sectors and stimulate economic activity. Further improvements are made in the services offered by ministries and institutions to enhance efficiency and effectiveness. Lastly, the government prioritizes improving public service delivery through public service agencies (BLU), ensuring affordability, availability, and sustainability for the public. These measures are intended to strengthen PNBP contributions to state revenue and promote sustainable development (Badan Kebijakan Fiskal, 2021).

During the pandemic in 2021, the government implemented fiscal policies to stabilize the economy and support recovery. Tax measures included VAT refunds, tax holidays, customs incentives, and import tax reductions to ease business burdens and boost investment. Non-tax state revenue (PNBP) was optimized through improved oil and gas production, enhanced state-owned enterprise (BUMN) contributions, and better public services in ministries and agencies. These policies aimed to maintain economic stability, protect livelihoods, and prepare for post-pandemic recovery.

In 2023, the government continued structural reforms amidst global uncertainties to strengthen state revenue. Tax reforms focused on digitalization and compliance improvements to expand the tax base. Customs incentives were provided to promote export-oriented industries, and tax allowances attracted foreign and domestic investments. PNBP strategies included enhancing service delivery efficiency, maximizing revenues from natural resources, and fostering inter-ministerial collaborations for improved collection and management (Badan Kebijakan Fiskal, 2023).

By 2024, fiscal policies emphasized accelerating inclusive and sustainable economic transformation. Tax measures under the Harmonized Tax Law sought to increase equity and compliance while supporting green economy initiatives through environmentally friendly incentives. PNBP policies highlighted strengthening revenues from downstream industrialization, innovating public asset management, and aligning revenue strategies with sustainable development goals. These policies reflect the government's effort to balance short-term economic recovery with long-term fiscal sustainability (Badan Kebijakan Fiskal, 2024).

Table 1. Government Fiscal Policy Regarding State Revenue (2020–2024).

Year	Key Policies	Focus Areas
2020	Introduction of tax relief, VAT exemptions, and PPh 22 import incentives; focus on health and social protection funding.	Pandemic response and economic stabilization.
2021	Acceleration of VAT refunds, DTP taxes for specific sectors, tax holidays, and customs incentives to boost recovery and competitiveness.	Post-pandemic recovery and strengthening competitiveness.
2022	Optimization of tax compliance, increased focus on infrastructure financing, and tax incentives for key industries.	Economic resilience and social program expansion.
2023	Digital tax reforms, expanded tax base, targeted green initiatives, and enhanced revenue from natural resources.	Efficiency in tax collection and sustainability.
2024	Harmonized tax law implementation, green tax incentives, and strengthening of non-tax revenues through industrial downstream.	Inclusive and sustainable economic transformation.

In 2021, fiscal policies focused on post-pandemic recovery and stabilization; in 2022, efforts shifted towards enhancing economic resilience and competitiveness; in 2023, they emphasized managing global uncertainties and implementing structural reforms; while in 2024, they prioritized inclusive and sustainable economic transformation.

Government Fiscal Policy Regarding State Spending

State expenditure (state spending) can be grouped into central government spending and transfers to regions and village funds (TKDD). In this aspect of spending, the government took countercyclical (contractionary) steps, namely increasing the state budget when the economic recession and the COVID-19 pandemic occurred. The government does not hold the APBN, saving it during the economic recession and the Covid-19 pandemic. This action is intended to stimulate the contracting economy. So, this expansionary spending aims to increase demand for consumption in the community. Increasing demand in the community will increase industrial income, and increasing industrial income will increase state income.

In 2020, state spending was significantly influenced by the onset of the COVID-19 pandemic, prompting a realignment of fiscal priorities to address urgent health and economic challenges. The government implemented a countercyclical fiscal policy, increasing expenditures to mitigate the effects of the recession and stimulate economic activity. A substantial portion of the budget was allocated to the National Economic Recovery Program (PEN), which focused on several key areas. Health spending ensured adequate funding for pandemic management through procuring medical supplies, expanding hospital capacities, and accelerating vaccine research and distribution. Social protection programs were expanded to include cash assistance (Bantuan Langsung Tunai), food aid, and pre-employment cards (Kartu Prakerja) to support vulnerable groups affected by the crisis. Additionally, interest subsidies, tax relief, and capital injections were provided to support MSMEs and corporations, preventing widespread unemployment. While infrastructure development was less emphasized, adjustments were made to support logistical connectivity and upgrades to health facilities to meet pandemic-related needs. These measures aimed to boost domestic demand, stabilize the economy, and safeguard livelihoods during significant economic disruption (Badan Kebijakan Fiskal, 2020).

In 2021, the government continued its countercyclical fiscal policy to support economic recovery and social protection amidst the ongoing effects of the COVID-19 pandemic. State spending was strategically allocated to stimulate demand, safeguard livelihoods, and promote long-term resilience. A significant portion of the budget was directed toward public services to create a more agile and competitive bureaucracy, ensuring the effective delivery of government responsibilities. The economic sector received substantial funding to boost food and energy security, advance infrastructure projects, and leverage technology for growth. Social protection programs were expanded, providing cash transfers, food assistance, and employment initiatives to support vulnerable populations. Education spending was increased to enhance outcomes, improve early childhood education (PAUD), and strengthen teacher training, while health allocations targeted pandemic recovery by improving access and quality in healthcare. Investments in defense and security ensured national stability, which is essential for economic recovery, and infrastructure spending continued to support connectivity and broader development goals. Additionally, targeted allocations for housing, environmental protection, and tourism reflected the government's commitment to comprehensive national growth. These fiscal measures highlight a balanced approach to addressing immediate recovery needs while building a foundation for sustainable economic and social development (Badan Kebijakan Fiskal, 2021).

In 2022, the government intensified its spending to sustain post-pandemic recovery. Priority was given to health, social protection, and infrastructure, with significant investments in strengthening health systems and ensuring adequate access to medical services. Social protection programs were expanded to support low-income households and mitigate the lingering economic impact of the pandemic. Infrastructure spending targeted food and energy security, technological innovation, and enhanced connectivity to stimulate economic activity. Education also received substantial attention, with increased funding to improve teacher competencies, early childhood education, and student outcomes as measured by international benchmarks (Badan Kebijakan Fiskal, 2022).

By 2023, the focus shifted to improving the quality and efficiency of state spending. The government emphasized strategically allocating resources to maximize their economic and social impact. Health and education remained central priorities, with additional reforms to strengthen public services and social safety nets. Investments in infrastructure supported inclusive economic transformation, particularly in promoting renewable energy, digitalization, and sustainable urban development. Social protection mechanisms were adjusted to address poverty alleviation and disaster resilience, ensuring the budget addressed both immediate and structural challenges. Coordination between central and regional governments was improved to enhance the effectiveness of transfers and ensure resources were utilized efficiently (Badan Kebijakan Fiskal, 2023).

In 2024, fiscal policy prioritized sustainable and inclusive economic growth. The budget allocation emphasized health and education, focusing on reducing stunting, improving the quality of education, and addressing workforce readiness. Infrastructure spending supported industrial downstream and the transition to a green economy, with investments in renewable energy and environmentally friendly technologies. Social protection programs were tailored to manage inflation and reduce inequality, ensuring economic stability for vulnerable populations. Transfers to regions and village funds were optimized to enhance local development and equitable resource distribution. This year marked a shift towards embedding sustainability and equity into all facets of state spending, aligning with global commitments and national priorities (Badan Kebijakan Fiskal, 2024).

Table 2. Focus Areas of Government Fiscal Policy on State Spending (2020-2024)

Year	Focus Areas
2020	Pandemic response: health, social protection, and economic recovery with MSME support.
2021	Sustaining recovery: public services, economic development, education, health, and stability.
2022	Economic resilience: infrastructure, innovation, and expanded social programs.
2023	Efficiency and sustainability: health reforms, education improvements, and green initiatives.
2024	Inclusive transformation: renewable energy, industrial downstream, and poverty alleviation.

From 2020 to 2024, state spending evolved from pandemic response—focusing on health, social protection, and economic recovery—to fostering resilience, efficiency, and sustainability. Initial efforts prioritized MSMEs, public services, and infrastructure, shifting by

2023-2024 toward green initiatives, renewable energy, industrial downstream, and poverty alleviation, balancing recovery with long-term growth.

Policies Related to Fiscal Deficit

The countercyclical policy implemented by the Indonesian government during the recession and the COVID-19 pandemic significantly impacted the state budget (APBN). This approach, characterized by increased government spending to stimulate economic recovery, led to a substantial fiscal deficit. The government's decision to expand spending aimed to mitigate economic contraction, support health systems, provide social safety nets, and revitalize key economic sectors such as MSMEs and infrastructure development.

From 2020 to 2024, the fiscal deficit became a critical aspect of the government's strategy, with the deficit ratio to GDP exceeding the 3% limit stipulated in Law No. 17 of 2003 on State Finance. This relaxation, permitted under Perppu No. 1 of 2020, allowed the government to address urgent pandemic-related expenditures. The fiscal deficit peaked in 2020 as emergency measures were rolled out, including the National Economic Recovery Program (PEN). In subsequent years, while the deficit remained elevated, it gradually declined as the economy recovered and the government implemented structural reforms to enhance revenue collection and optimize spending efficiency (Government of Indonesia, 2020; Law, 2023).

The government implemented a financing policy primarily through debt instruments to cover this budget deficit. This effort was carried out using two main schemes: issuing State Debt Securities (SUN) and borrowing from multilateral institutions, such as the IMF, and bilateral loans with partner countries. These mechanisms provided the necessary liquidity to fund critical expenditures during the pandemic and support economic recovery initiatives. However, reliance on debt financing also increased the government's fiscal burden, necessitating repayment of the principal and significant loan interest. This underscores the need for prudent debt management and strategies to ensure fiscal sustainability while addressing immediate economic challenges (Indrawati et al., 2024; Ministry of Finance, 2023).

This financing approach highlights the importance of balancing short-term recovery needs with long-term fiscal stability by diversifying revenue sources and optimizing expenditures to reduce reliance on borrowing. The policies implemented during this period demonstrate the government's adaptability in responding to a global crisis while striving to maintain fiscal resilience.

The Concept of Islamic Fiscal Policy in Addressing Recession and Supporting Post-Pandemic Recovery

Islamic fiscal policy can be examined from two main perspectives: historical practices during the time of the Prophet Muhammad (PBUH) and subsequent Islamic caliphates, as well as the contributions of classical and contemporary Muslim economists. During the Prophet's era, Islamic economic policies focused on achieving social and economic justice through equitable wealth distribution, forming the foundation of the Islamic fiscal system (Khaldun, 1377; Oktaviana & Harahap, 2020; Yusuf, 798). During the reign of the Rashidun Caliphs, Islamic fiscal policy remained rooted in the principles of justice and solidarity. For example, Caliph Umar ibn al-Khattab formulated various economic policies to support people's welfare, including land distribution to farmers, infrastructure development, and price control (Janwari & Al-Hakim, 2024). The modern development of Islamic economics began during the second quarter of the 20th century. Perhaps the first article to introduce the economic thought of Muslim scholars was written by Salih in Arabic entitled 'Arab Economic Thought in the Fifteenth Century' in which he discussed the economic ideas of Ibn Khaldun, al-Maqrizi, and al-Dulaji (Islahi, 2005). Contemporary Muslim economists have engaged in comparative analyses of major works, presenting multiple and sometimes opposing views on Islamic economics. They combine neoclassical economic ideology with basic Islamic tenets, contributing to the evolving discourse on Islamic fiscal policy (Al-Daghistani, 2022). These perspectives collectively enrich the understanding of Islamic fiscal policy by bridging historical practices with modern economic thought, offering valuable insights into how fiscal policy can address economic recessions and contribute to post-pandemic recovery.

Fiscal policy emphasized public welfare above economic growth during the time of the Prophet Muhammad. The primary focus of state spending was to fulfill every Muslim's basic needs, especially during economic hardship. Holding back state treasury funds during an economic recession was deemed unjust, as the Prophet emphasized the importance of distributing wealth to those in need (Karim, 2016).

This approach continued during the caliphate period. For example, during Umar bin Khattab's reign, a severe recession occurred due to a prolonged drought and a deadly plague known as the "Year of Ramadah." Umar's fiscal response included increasing state spending to manage the crisis, providing relief on zakat payments, and suspending zakat obligations for affected sectors (Al-Haritsi, 2006). During the Ottoman Dynasty, the government implemented a "self-sufficiency system" to address economic recession by prioritizing domestic needs and ensuring regional welfare through centralized resource distribution (Yatim, 2000).

Classical Muslim economists, such as Ibn Khaldun, contributed significantly to the foundation of Islamic fiscal principles, particularly in state financial management. Ibn Khaldun highlighted the importance of generous government spending to stimulate economic activity and promote public welfare. He argued that economic recessions occur when governments withhold spending, leading to reduced business activity and profits. In contrast, increased government spending during a recession can boost production and, in turn, enhance state revenue, creating a cycle of economic recovery and growth (Boulakia, 1971; Muslim, 2017). Abu Yusuf, a prominent jurist and Qadhi during Harun al-Rashid’s reign, advocated for fairness and proportionality in tax collection while emphasizing the government’s responsibility to fulfill public needs, viewing state funds as a trust that must be used effectively for public benefit (Siddiqi, 1987). Similarly, Al-Mawardi highlighted the state’s role in achieving material and spiritual welfare, stressing the appropriate utilization of Baitul Mal funds to ensure public welfare; in cases of a deficit, he permitted public borrowing or reallocating funds from surplus areas to deficit needs (Al Mawardi, 2020; Chamid, 2010).

Modern Muslim economists, such as Umar Chapra and Muhammad Abdul Mannan, expanded on classical ideas to refine Islamic fiscal principles in the contemporary context. Umar Chapra identified three key principles for fiscal policy: efficiency, justice, and prioritization. Efficiency involves maximizing benefits while minimizing costs and avoiding waste; justice ensures that state spending benefits all citizens equitably, and prioritization aligns expenditures with maqasid al-shari’ah, focusing on necessities (*daruriyyah*), needs (*hajiyyah*), and refinements (*kamaliyyah*) (Chapra, 2016). Muhammad Abdul Mannan emphasized fiscal policy principles centered on public benefit, permissible expenditures, and prioritizing harm reduction over improvements. He advocated balancing individual and collective interests through proportional fiscal measures, guided by principles such as *al-ghurmu bil ghurmi* (gain is tied to liability), providing a comprehensive framework for effective fiscal management (Mannan & Abdul, 1993).

From these perspectives, the core objective of Islamic fiscal policy is to ensure public welfare across all economic cycles, particularly during recessions. The concept of countercyclical fiscal policy, where government spending increases during economic downturns, aligns with Islamic principles. Expansive state spending during a recession supports public welfare, stimulates economic activity, and increases state revenue, as highlighted by Ibn Khaldun (Khaldun, 1377).

However, such policies must adhere to prioritization principles to avoid fiscal deficits. Strategies like those proposed by Umar Chapra and Muhammad Abdul Mannan, emphasizing efficiency, justice, and prioritization, are essential to maintaining fiscal stability while addressing societal needs. By integrating these principles, Islamic fiscal policy provides a robust framework for addressing economic recessions and supporting recovery in a socially just and economically sustainable manner.

Analysis of Indonesia's Fiscal Policy During the Economic Recession and Post-Pandemic Recovery from an Islamic Fiscal Perspective

In this discussion, the author will compare Indonesia's fiscal policy during the economic recession and the COVID-19 pandemic with the concept of Islamic fiscal policy. This comparison aims to assess the suitability of the concept of Indonesia's fiscal policy during the economic recession and the COVID-19 pandemic from the perspective of Islamic fiscal policy. The author will present the analysis results as a table matrix to make this comparison easier to understand.

Indonesia's fiscal policy is viewed from three perspectives, namely the aspect of state revenue policy, the aspect of state spending, and the aspect of fiscal deficit policy financed by external financing schemes, reviewed from the perspective of Islamic fiscal policy, which has been formulated from two approaches, namely the approach to the fiscal history of Islamic government and from the perspective of classical and modern Muslim economists regarding fiscal policy in the context of economic recession.

Table 3. Comparison of Islamic and Indonesian Fiscal Policies

Fiscal Aspect	Concept of Islamic Fiscal Policy	Concept of Indonesian Fiscal Policy	Evaluation
State Revenue	Revenue derived from zakat, kharaj, fai', and jizyah. Taxation is permissible temporarily in emergencies.	Primarily from taxes, VAT, customs duties, and non-tax revenues like dividends from state-owned enterprises.	Emphasis on temporary taxation aligns partially with Islamic principles, but zakat as a key component is absent.
State Spending	Spending prioritizes public welfare based on maqasid al-shari'ah (necessities, needs, refinements). Generosity in spending is emphasized during recessions.	Focuses on health, social protection, and economic recovery, with significant allocations for infrastructure.	Strong alignment in prioritizing public welfare but less emphasis on maqasid categorization in budgeting.
Fiscal Deficit	Borrowing is permissible under Islamic principles, avoiding riba (interest). Alternative instruments like sukuk are preferred.	Deficit financed primarily through interest-bearing loans and government bonds (SUN).	Divergence exists due to reliance on interest-based financing, which is incompatible with Islamic principles.

This table outlines the foundational fiscal policy principles in Islamic governance compared to Indonesia's fiscal strategies. It evaluates three critical aspects: state revenue, spending, and fiscal deficit management. While Indonesia's policies align with Islamic principles in prioritizing public welfare, key differences emerge in revenue generation and deficit financing, mainly due to the absence of Islamic instruments like zakat in state revenue and the reliance on interest-based loans to cover fiscal deficits.

Table 4. Comparison of Countercyclical Revenue Measures During Recession

Fiscal Aspect	Islamic Fiscal Policy Implementation	Indonesian Fiscal Policy Implementation	Evaluation
Revenue Adjustments	Temporary taxes are used during emergencies; redistribution is done through zakat and other Islamic sources.	Provided VAT refunds, reduced import duties, and introduced tax allowances to stimulate economic activity.	It aligns with temporary relief measures but lacks Islamic redistributive mechanisms like zakat.
Spending Adjustments	Focuses on basic needs and social welfare, avoiding luxury expenditures.	Allocated funds for health services, social protection, and economic recovery initiatives like MSME support.	Strong alignment in prioritizing public welfare and addressing immediate needs.
Debt Management	Promotes non-interest financing methods, such as Sukuk or public loans without riba.	Predominantly financed through interest-bearing loans and bonds.	Key divergence in reliance on riba-based instruments, contrasting with Islamic fiscal principles.

This table examines how Indonesia's revenue adjustments during the recession align with the countercyclical measures in Islamic fiscal policy. It highlights similarities in the temporary nature of fiscal relief measures, such as tax incentives and reduced import duties. Still, it underscores the absence of redistributive tools like zakat, which are central to Islamic fiscal principles.

Table 5. Comparison of Countercyclical Spending During Recession

Fiscal Aspect	Islamic Fiscal Policy Implementation	Indonesian Fiscal Policy Implementation	Evaluation
Health Spending	Ensures access to essential health services, with spending directed towards community welfare and future preparedness.	Significant allocation for health services, including pandemic management, vaccines, and hospital capacity enhancement.	Strong alignment in prioritizing health spending for public welfare.
Social Protection	Focuses on the redistribution of wealth through zakat, sadaqah, and public funds to support vulnerable groups.	Expanded social safety nets, including cash assistance (BLT), food aid, and pre-employment cards (Kartu Prakerja).	Aligns with the objective but lacks the Islamic redistributive framework.
Economic Support	Encourages productive spending to stimulate the economy, avoiding wasteful expenditure.	Support for MSMEs through capital injections, tax incentives, and interest subsidies to sustain operations.	It aligns with Islamic emphasis on productive spending but relies on interest subsidies, diverging from Sharia principles.

Infrastructure	Spending is directed toward essential projects that ensure long-term societal benefits.	Continued infrastructure projects to ensure connectivity, logistical support, and economic stability.	Partially aligns, though Islamic principles would prioritize projects addressing immediate societal needs.
Spending Prioritization	Categorized based on maqasid al-shari'ah: necessities (*daruriyyah*), needs (*hajiyyah*), and refinements (*kamaliyyah*).	Allocated based on national development priorities but without explicit reference to maqasid principles.	Divergence in the framework for prioritization, as Islamic principles emphasize spiritual and material balance.

This table focuses on fiscal policy's spending side, comparing priorities like health, social protection, economic support, and infrastructure. Indonesia's focus on addressing immediate needs, such as pandemic management and MSME support, aligns with Islamic principles. However, divergences are evident in the reliance on interest subsidies and the lack of explicit maqasid al-shari'ah categorization in spending prioritization.

From an Islamic fiscal perspective, fiscal policy is rooted in principles prioritizing public welfare, social justice, and the equitable redistribution of resources. Islamic fiscal practices are guided by maqasid al-shari'ah, emphasizing necessities (*daruriyyah*), needs (*hajiyyah*), and refinements (*kamaliyyah*). These principles provide a benchmark to evaluate Indonesia's fiscal policies during the economic recession and post-pandemic recovery.

Indonesia's fiscal approach during the economic recession and COVID-19 pandemic shares similarities with Islamic fiscal principles, particularly in its countercyclical measures to stabilize the economy and support public welfare. For instance, the government's focus on health spending, social protection, and economic recovery aligns with Islamic priorities of safeguarding life and livelihood (*hifz al-nafs and hifz al-mal*). However, there are notable divergences, especially in revenue generation and financing mechanisms.

Islamic fiscal principles emphasize redistributive tools such as zakat to promote social justice and discourage overreliance on taxation, except temporarily during emergencies. While Indonesia relied heavily on tax incentives and adjustments during the pandemic, the absence of zakat as a fiscal instrument highlights a gap in alignment with Islamic principles. On spending, Islamic fiscal policy advocates expansive, prioritized expenditures based on maqasid al-shari'ah, addressing material and spiritual needs. Indonesia's focus on health, social protection, and MSME support aligns with these principles but lacks explicit categorization rooted in Islamic priorities. Regarding deficit financing, Islamic principles favor sharia-compliant alternatives like sukuk, avoiding riba (interest). However, Indonesia's reliance on interest-based loans and bonds diverges significantly from Islamic fiscal norms, underscoring the need to integrate Islamic financing into modern fiscal strategies.

Islamic fiscal principles emphasize the importance of a balanced approach that avoids excessive debt while ensuring economic stability and societal welfare. The countercyclical nature of Indonesia’s fiscal policy—marked by increased spending during the recession—resonates with the Islamic emphasis on countering economic cycles through proactive government intervention. However, greater integration of Islamic instruments like zakat, waqf, and sukuk could enhance the alignment of Indonesia’s fiscal strategies with Islamic principles, promoting sustainability and social equity.

Conclusion

Indonesia’s fiscal policies during the economic recession and post-pandemic recovery demonstrate a strategic approach to mitigating the impacts of the COVID-19 pandemic through expansive spending, tax adjustments, and deficit financing. These measures aimed to stabilize the economy, safeguard public welfare, and support recovery efforts. When analyzed from an Islamic fiscal perspective, several alignments and gaps are identified. The prioritization of health services, social protection, and MSME support aligns with the Islamic principle of promoting public welfare and achieving maqasid al-shari’ah. The government’s countercyclical policies effectively addressed immediate challenges by focusing on social equity and economic recovery. However, the lack of explicit integration of Islamic fiscal instruments, such as zakat and waqf, into revenue strategies highlights a significant gap. These instruments could provide a more sustainable and equitable resource redistribution framework consistent with Islamic teachings. Furthermore, Indonesia’s reliance on interest-bearing loans and bonds to finance fiscal deficits diverges from Islamic principles, which advocate sharia-compliant alternatives like Sukuk. While these conventional measures addressed immediate financial needs, they underscore the importance of adopting financing mechanisms that align with Islamic values, particularly in avoiding riba (usury). In summary, Indonesia’s fiscal policies during this critical period align with Islamic principles in prioritizing public welfare and recovery efforts. However, opportunities remain to strengthen this alignment by incorporating Islamic fiscal instruments. Such integration would enhance fiscal sustainability and support a more inclusive and equitable economic recovery under Maqasid al-shari’ah.

This study is limited to analyzing Indonesia’s fiscal policies by focusing on three main aspects: state revenue, state spending, and deficit financing. It does not explore the technical implementation of Islamic fiscal instruments such as zakat and sukuk at the operational level.

Further research is recommended to investigate the practical integration of Islamic fiscal instruments into Indonesia's fiscal policies, including their impact on economic sustainability and the equitable distribution of welfare across various sectors.

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