Abstract
The Covid-19 pandemic that has hit the world since the year 2019 puts fiscal pressure on the Governments of Indonesia. The Government of Indonesia has spent very big expenses to deal with the pandemic and recovery the national economic conditions. This condition will increase a fiscal risk level to achieve Gold Indonesia Vision of the year 2045. This article aims to assess the impacts of Covid-19 pandemic to fiscal sustainability of the central and provincial governments in Indonesia and identify the risks faced by the central and provicial governments after this outbreak. By using quantitative descriptive analysis and focus group discussion, it was identified an increase in the level of fiscal vulnerability in the central and provincial governments in Indonesia. The results of an analysis for the provincial government level conclude that provincial governments throughout Indonesia are under pressure on their fiscal sustainability. This is reflected in the decline in the Tax ratio, the increase in Debt to Income, and the increase in the budget deficit. This encourages the emergence of new risks that can interfere with efforts to achieve development goals. Several fiscal policies need to be taken to maintain fiscal sustainability like intensification and extensification of taxes and improving the quality of regional spending.

Key words: Pandemic, Sustainability Fiscal, Risks.


INTRODUCTION
In the year 2021, The Covid-19 pandemic is still a global challenge with the outbreak of the Omicron Variant. Indonesia has passed the peak of the second wave of the pandemic in line with the government's policies for handling the pandemic, such as the implementation of Emergency PPKM, adding health facilities, increasing testing, and accelerating vaccinations so that there are Covid-19 cases. However, Indonesia must remain vigilant given the dynamics of the Covid-19 issue.

In the global economy, the trend of Covid-19 cases in general showing a decline during the second quarter of 2021 has had a positive impact on economic growth in various countries. However, the world remains aware of the
various challenges and risks that occur, such as the uncertainty related to Covid-19, the limited space for stimulus for the economy, the risk of climate change along with the increase in carbon emissions and global temperatures, and geopolitical tensions that are still high in various regions (Sakri, 2020; Fiscal policy Agency, 2020).

This pandemic that has hit the world since the end of year 2019 has caused shocks for the world. Shocks to the demand side of the economy, in general, are only important in determining short-run fluctuations (Siregar, 2000). Hundreds of thousands of individuals have been out of work or reduced in income. Joblessness has risen in almost all of the world’s economies. As a result of this sickness, a wide range of companies and sectors are affected, which include the pharmaceutical industry, the solar power industry, the travel industry, and the Information and electronics industry. Stock prices and bond yields have fallen sharply (Shokirov, 2020). The Indonesia Finance Ministry assessed that there was a contraction in economic growth of 5.32%. Various regions in Indonesia also experienced the same thing. Along with this slowdown in economic growth, there has been a weakening of export-import performance and a decline in real activity. The IMF revealed that this pandemic has exerted global pressure to a very high and worst magnitude since the 2008/2009 crisis and has estimated a cumulative world loss of USD 9 trillion. The IMF predicts negative economic growth in countries in the world, including Indonesia. This condition certainly has a big influence on fiscal sustainability of the Governments in Indonesia.

The Central Government of Indonesia has conducted a long-term fiscal sustainability analysis in 2020 as a form of commitment to sound, consistent and sustainable fiscal management. This analysis is carried out to support the realization of Indonesia’s Vision 2045 towards a sovereign, developed, just and prosperous country. There are three alternative strategies developed in this analysis (Fiscal policy Agency, 2020).

In Indonesia, provinces with high human interaction activities have been significantly hit by the strict mobility restrictions during the pandemic, such as Bali that is primarily reliant on tourism. On the other hand, some provinces are surviving the economic contraction surprisingly well, as seen by positive economic growth in 2020. These provinces are based primarily on natural resources rather than human interaction activities (Desdiani et al., 2022).

Public finance sustainability defined as: the ability of a government to sustain its current spending, tax and other policies in the long run without threatening the government’s solvency or without defaulting on some of the government’s liabilities or promised expenditures (European Comission, 2016). The existence of high fiscal pressure due to the Covid-19 pandemic forced the Government to change the focus of its fiscal policy by giving priority to dealing with the outbreak. Moreover, handling Covid 19 requires a very large budget, part of which is funded by debt. This increase in national debt will increase fiscal pressure in the future.

On the other hand, Indonesia has a Vision of a Golden Indonesia in the year 2045. In welcoming the 100th anniversary of the Independence of the Republic of Indonesia, the Government has launched a scenario for Indonesia in 2045 which is expected to be realized. The Indonesia 2045 scenario is described in table 1.

<table>
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<tr>
<th>Table 1. Scenario of Indonesian Vision 2045</th>
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<tr>
<td><strong>Indicator</strong></td>
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<tr>
<td>Economic Growth</td>
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<tr>
<td>GDP per Capita</td>
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<td>Investment Portion</td>
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<td>Industry Potion</td>
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<td>Unemployment Rate</td>
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<td>Poverty Rate</td>
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“The shock” in various aspects of human life as a result of the Covid 19 Pandemic has put great pressure on the Government in its efforts to achieve these National Goals. In 2020 the Government of Indonesia and Local Governments experienced a significant reduction in growth rates, an increase in poverty, and a weakening of fiscal capacity. These shocks made efforts to realize the Indonesia Gold Goal 2045 increasingly difficult and led to the emergence of potential risks and obstacles that could derail the achievement of these Goals.

Risk is the impact of uncertainty in achieving a goal (International Organization for Standardization, 2009). A systematic approach is needed to determine the best course of action in conditions of uncertainty through identification, understanding, action, and communication of a risk (The International Federations of Accountants, 1999). Appropriate fiscal risk management will increase the stability of fiscal availability and sustainable development. The success of achieving goals and objectives depends on how risks and uncertainties are managed optimally (Tummala & Leung, 1996).

With the above conditions, the problems are the impact of the Covid-19 pandemic on the fiscal capacity and fiscal sustainability of the Central and Provincial Governments in Indonesia, and the risks that can arise from the policies taken in dealing with this pandemic.

Fiscal capacity is defined as the extractive capability of the state, i.e. the amount and type of resources the state could theoretically extract if it chose to do so, and the extent to which this extraction can be done “efficiently”. Fiscal capacity is determined by a nation’s ability to reduce the deficit without threat of macroeconomic and debt of sustainability management.

There are several ways to measure a country’s fiscal capacity. In some developed countries, fiscal capacity is measured using the main tax bases and standard tax rates. Measurement of a fiscal capacity is done by using two measuring tools, namely Tax Ratio and Total Revenue. Tax ratio is measured by dividing Total Tax Revenue to Gross Domestic Product (GDP). Meanwhile, Total Revenue is calculated by dividing the Total Tax and Non-Tax Revenue by Gross Domestic Product (Thies, 2015) .

The fiscal capacity will encourage the success of development and conversely the success of development will increase the fiscal capacity. Both are like a cycle that supports each other. The dynamic condition of global economic can put quite strong pressure on the national economy. These pressures can be in the form of a slowdown in economic growth, the depreciation of the currency exchange rate, weakening export performance, and a decline in the prices of leading commodities. This condition can affect the country's ability to increase fiscal capacity, and maintain its sustainability.

Fiscal sustainability is the ability of the government to maintain state finances in a credible position and to be able to provide services to the public in the long term, taking into account expenditure and income policy factors, taking into account the costs of debt repayment and socio-economic and environmental factors in the future. Prudent macro-economic assumptions, paying attention to sensitivity and risk analysis as well as appropriate fiscal rules will help direct sustainable expenditure and income policies in the short and medium term. For a long-term fiscal sustainability perspective, fiscal projections can be made by adding a combination of demographic and socio-economic projection trends as necessary analysis material. So, Fiscal sustainability defined as “the ability of an entity to meet service delivery and fiscal commitments both now and in the future (Gorina, 2013).

Indicators that show long-term fiscal sustainability include (1) primary balance, (2) tax ratio, (3) APBN deficit, and (4) debt-to-GDP
ratio. The analytical tool to identify fiscal sustainability uses a non-parametric approach, using four indicators. First, dynamic changes in the ratio of government debt stock to GDP. If this indicator is negative, it indicates that economic growth is higher than debt growth, thus pushing the Debt Ratio to tend to decline. This condition indicates increased productivity and decreased risk or improvement in fiscal sustainability.

Second, using the primary deficit gap indicator for one period, namely by calculating the difference between the required augmented primary deficit and the actual primary deficit ratio. From this calculation, if the gap value is positive, this indicates the need for fiscal policy adjustments so that the debt-to-GDP ratio can be maintained at a constant point.

Third, is the tax gap. This indicator is the development of the second indicator by focusing on the taxation aspect, which is calculated from the difference between the actual tax ratio and the sustainable tax ratio. If the value of this indicator is positive, it indicates a stable or even improving condition.

In maintaining fiscal sustainability, it is necessary to identify the level of fiscal vulnerability to a tolerable limit. In general, fiscal vulnerability is a condition where fiscal resilience is depressed so that it has the potential to reduce the ability of the Government to meet its obligations, and even hinder the process of achieving the Government's targets.

Fiscal risk is mainly defined as “a source of fiscal stress that could face a government in the future” or as “the possibility of deviations in fiscal variables from what was expected at the time of the budget or other forecast” (Cetabori, 2009). Fiscal risk will affect the fiscal sustainability of the nation. So, the effectiveness of fiscal risk management will increase the fiscal sustainability. Risk Management is a process that is built in designing organizational strategies through the identification of events that can hinder efforts to achieve goals. Better management of fiscal risk will help to realize strong state finances (International Monetary Fund, 2016).

The results of the IMF analysis at the article 'Analyzing and Managing Fiscal Risks-Best Practices' (2016), shows that there are 7 sources of fiscal risks, include Macroeconomic shocks, Financial Sector, Legal cases, Sub-National, State-Owned Enterprise, Disaster, and Public Private Partnership.

Macroeconomic shocks are the fluctuation of macroeconomic condition such as fluctuations in the price of leading commodities or the volatility of global economic conditions can affect the country's ability to obtain national revenue. Financial Sector is the condition of the national financial system, such as corporations in the financial sector, can put fiscal pressure on the government. Legal Cases is Lawsuits against the Government can result in significant state expenditures. Local Government or Sub-National is fiscal burdens arising from the management of Regional or Sub-National Governments. State-Owned Enterprise is a fiscal burden to the Government arising from the activities of state companies (BUMN). Disaster is fiscal burden on the Government due to Natural and Non-Natural Disasters. Public-Private Partnership is fiscal burden to the Government that arises as a consequence of the cooperation between the Government and Business Entities or PPP (Public Private Partnership).

In order to maintain fiscal sustainability so that development can proceed as expected, all these fiscal risks must be analyzed and anticipated and mitigated appropriately. The stipulation or revision of government policies needs to take into account the level of these existing risks. Failure to anticipate fiscal risks can result in poor development performance, even further failures and scandals.
The Government of Indonesia has conducted a Fiscal Risk assessment every year, as part of the preparation of the Macro-economic Framework and Fiscal Policy Principles and the RAPBN Financial Note which is submitted by the President every August 16th on the House of Representatives. The Fiscal Risk Assessment is carried out to provide a guarantee of fiscal sustainability in the implementation of the APBN in the budgeted year (Himawan & Pribadi, 2021).

From the results of the Fiscal Risk Assessment of the 2022 State Budget, it shows that the fiscal risks that most threaten are macroeconomic shocks and The National Economic Recovery Program. The Government predicts that macroeconomic shocks will put great pressure on state revenues so that they can disrupt fiscal availability in the implementation of the 2022 Budget. During the preparation of the 2022 Budget, it is still difficult to predict how this pandemic will behave in Indonesia, so it is likely that heavy fiscal pressure will emerge for the Government of Indonesia. To restore the national economy, this increases the fiscal burden on the government to pay the principal and interest on the debt. Fluctuations in exchange rates and interest rates could push higher pressures.

The next is the risk of loss due to natural disasters and the risk of SOE's failure in infrastructure development. These two fiscal risks overshadow the country's fiscal capacity due to the high intensity of natural disasters in Indonesia with an increasing trend. Likewise, the existence of special assignments to SOEs for infrastructure development has increased the risk of failure to complete projects and pay their obligations.

In regional level, all entities in the region must understand the risks faced in each of their activities and know how to deal with them (Kapuscinska & Matejun, 2014). Various risks can occur and have the potential to adversely affect the local and national economy. Risks related to regional investments, poor communications and transportation services, lost markets, natural and man-made disasters, can affect regional damage, competitiveness and development. The cumulative potential and or impact of events that may occur are referred to as “Regional Risk” (Roberts, 2003).

In the context of regional fiscal management, fiscal risk is called subnational fiscal risk. Each Regional Government is required to manage fiscal risk to maintain fiscal sustainability in the implementation of its development program.

METHOD

The analytical method used is quantitative descriptive analysis and Focus Group Discussion. The data used are APBN, Central Government Financial Reports, Provincial Government Financial Reports, and the Central Statistics Agency (BPS) data. The Focus Group Discussion was carried out by involving experts in the field of State Financial Management and Risk Management from the Financial and Development Supervisory Agency (BPKP). The FGD discussed the risks that could occur after the Covid 19 Pandemic.

First, an analysis would be carried out on the trend of Indonesia's macro indicators in 2010–2020. Some of the indicators used included Gross Domestic Product, Economic Growth Rate, Inflation Rate, and National Poverty Levels. This was to get an overview of the condition of Indonesia as a result of Covid 19. Furthermore, to measure the level of fiscal vulnerability of the Central Government, several indicators from INTOSAI.

INTOSAI through ISSAI 541 promotes best practices in public debt management policies, including the creation of appropriate information, and uses indicators such as those considered in this analysis. Common indicators are indicators of vulnerability related to debt management. The debt vulnerability indicators
provided by two international institutions and their standards on Table 2 (BPK RI, 2020).

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<th>Table 2. The Indicator of fiscal Vulnerability</th>
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<tr>
<td>Debt Service per Income</td>
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<td>Debt/Income</td>
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<td>Interest/Income</td>
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<td>Debt/ GDP</td>
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By using data of 2010 – 2020, it will be possible to assess how much fiscal pressure has occurred as a result of the pandemic at the beginning of 2020.

The assessment of the level of fiscal sustainability used two indicators, namely the trend of dynamic changes in the ratio of the government debt stock to GDP, and the dynamic trend of changes in the primary deficit gap. By using data of 2010–2020, it would be able to assess how much impact the COVID-19 pandemic has on the level of fiscal sustainability of the Central Government.

In Indonesia, The fiscal capacity index before the pandemic in 2019 was retrieved from Ministry of Finance Regulation (PMK) No.126/ 2019, whereas the index during the pandemic period was collected from Ministry of Finance Regulation (PMK) No.120/2020. The calculation of the fiscal capacity index consists of several indicators, such as total revenue, mandatory spending, and specific allocation spending (Desdiani et al., 2022).

The indicators that would be used to assess the level of fiscal vulnerability and fiscal sustainability of the Local Government were Deficit per GDP, Tax Ratio, and Total Debt to Income. Measurement of each indicator uses data from the Financial Reports of Provincial Governments throughout Indonesia of the year 2014–2020.

After the measurement of all fiscal vulnerability and sustainability indicators, researcher conduct a trend analysis. The result of trend analysis show a differences fiscal condition between before and after pandemic.

**RESULTS AND DISCUSSION**

The analysis results of several macroeconomic indicators, it can be assessed that the COVID-19 pandemic that occurred in early 2020 has placed great fiscal pressure on the Central and Local Governments in Indonesia. This can be seen from the decline in several strategic macro indicators and the fiscal conditions of the Central and Provincial Governments in Indonesia.

Indonesia’s economic growth from 2009 to 2019 ranged from 4.5 to 6.5%, experiencing a sharp decline to -2.1% in 2020. This negative economic growth occurred for more than 6 months so it can be said that Indonesia had experienced a recession. This pandemic has also resulted in an increase in the poverty rate. From 2009 to 2019, Indonesia’s poverty rate experienced a steady decline from 13.83% to 9.2%. The pandemic has reversed this positive trend and the poverty rate has risen to 10.19%. From these two indicators, this pandemic has proven to have dealt a major blow to Indonesia’s economic conditions.
This situation puts great pressure on the fiscal conditions of the Central and Local Governments. The Revenue increased from IDR 879 trillion of the year 2009 to IDR 1,961 trillion of the year 2019, but it has decreased IDR Rp 1,648 trillion of the year 2020. On the other side, The Expenditure increased from IDR 973 trillion of the year 2009 to IDR 2,310 trillion of the year 2019, and increased sharply to IDR 2,595 trillion of the year 2020. Likewise with Indonesia’s tax ratio. In the year 2014, the Tax ratio was 13.1%, decreased to 9.76% in 2019, and further decreased to 8.3% in 2020.

Some of these indicators indicate an increase in fiscal vulnerability in Nation Finances. The level of the budget deficit to Gross Domestic Product, increased rapidly from -1.8% in 2019 to -6.13% in 2020. This condition shows that the fiscal need to finance government and develop in 2020 was far greater than the Government’s ability to collect country income. In addition, the Debt Service ratio (DSR), which was a measure of the obligation to pay interest and principal on state loans, experienced a significant increase. In 2014, Indonesia’s DSR of 24% increased to 29% in 2019, and it increased sharply to 39.39% in 2020. The conditions that occurred in Indonesia are in accordance with what was conveyed
by Bahraneanu that there was a decline in all macroeconomic indicators as a result of the Covid-19 pandemic (Bahraneanu, 2020). This is in line with what happened in India where economic growth decreased by -4.3 to -15%. (Ramakumar, 2021)

From the analysis of sectoral national economic growth, the impact of the Covid 19 pandemic shows a change in people’s economic behavior. The pandemic, which prompted the Government to issue a new normal life policy, has resulted in a decline in productivity in some sectors, and conversely an increase in other sectors.

![Figure 4. Trend of Economic Growth per Sector 2014 – 2020](image)

Figure 4 illustrate the sectoral economic growth rates from 2015 to 2020. From this information, it appears that there had been major changes in people’s economic behavior as a result of the Pandemic. This was reflected in the trend and changes in the proportion of sectoral development growth rates in 2020 compared to previous years.

In 2020, almost all development sectors experienced negative growth. The development sectors that were most negatively affected by the pandemic were the transportation and warehousing sector (-15%) and the food and drink accommodation sector (-10.2%). The new normal life policy during this pandemic reduces productivity in the transportation and hospitality sector, which is synonymous with the tourism sector.

On the other hand, several development sectors experienced an increase. The sectors that experienced large growth during this pandemic were the health services sector (11.6%) and the information and communication sector (10.60%). The health services sector was growing rapidly in line with the enormous demand for medical equipment, medicines, and vitamins for people who were facing a pandemic. Meanwhile, the information and communication sector has increased rapidly, driven by changes in people’s work patterns from face-to-face to online. Other development sectors experienced negative but not significant growth, such as mining, construction, business services, and the manufacturing industry.

This behavior may change in 2022 and beyond after the pandemic has passed. There is a different in the economic structure after pandemic in the year 2020, like happened after financial crisis in the year 1998 (Endaryanto, 2015). Several development sectors are predicted to recover soon in line with the handling of the
pandemic and return to their pre-pandemic position.

The Government of Indonesia faced the Covid-19 pandemic through several policies which were divided into two strategies, namely policies for handling and preventing the spread of the virus and policies for national economic recovery. Meanwhile, the fiscal policy taken to deal with the pandemic is to refocus the budget in various fields. The entire implementation of this policy is carried out in an integrated manner by the Central Government and Regional Governments throughout Indonesia.

Fiscal pressure as a result of the pandemic as illustrated by the analysis results had reduced the Government’s fiscal capacity in 2020 and would impose additional fiscal burdens in the future. The ‘new normal’ life that was launched by the Indonesian government during and after this epidemic created several new risks, including risks in the fiscal sector. This New Normal has reduced investment levels, devalued asset values, weakened exchange rates and prices for leading commodities such as oil (Zahariev et al., 2021). In the private sector, companies experienced a decline in performance, even bankruptcy. This forces the company to formulate new goals for its organization.

Further analysis of the vulnerability and fiscal sustainability of the province is carried out by observing the behavior of several indicators, namely the percentage of the Budget Deficit to GRDP, the percentage of debt to GRDP, the percentage of debt to income (income), the Ratio of Income to Expenditures, and the Tax Ratio. From the trend analysis on the province average value for each indicator from 2014 to 2020, it is illustrated in the Figure 5.

![Figure 5. The Mean of Fiscal Indicator of Provincial Government 2014 – 2020](image)

From the observations on the graph, it shows that in general the COVID-19 pandemic has disrupted the fiscal sustainability of the Provincial Government in Indonesia. This is reflected in the behavior of 3 indicators, namely Debt per Income, Budget Deficit, and Tax Ratio. The average value of Debt per Income of the Provincial Government in Indonesia had increased quite significantly from 6.9 to 10.8 or an increase of 56.52%. The Provincial Government Budget Deficit in Indonesia also experienced an increase from a surplus of 0.1% to a deficit of 0.07%. Meanwhile, the Provincial Government’s Tax Ratio, which was originally 1.02%, has decreased by 0.93%. Meanwhile, two indicators, namely Debt per GRDP and In-
Fiscal Sustainability and Risks of Provincial Government After Pandemic

come per Expenditure, were relatively unaffected by this Pandemic.

From this analysis, it can be concluded in general that the Covid-19 pandemic has reduced the ability of the Provincial Governments in Indonesia to collect their fiscal revenues. Meanwhile, the fulfillment of fiscal needs in financing its development is not affected, it has been anticipated through a policy of budget refocusing. Things that need to be considered are the still low Tax Ratio and increasing Debt to Income. This shows a decline in the ability of the Provincial Government to collect its potential revenue. The decrease in Tax Ratio of local government is not as big as the decrease in the central government. This is in line with the findings of Dougherty and De Biase (Dougherty, 2021) that the decrease in the revenue of subnational governments are less sensitive to economic downturns than central governments.

In the graph of the development of the provincial government’s budget deficit from 2014 to 2020, the level of the provincial government’s budget deficit in Indonesia did not exceed the allowable threshold of 3% of GRDP. This shows that in general the Provincial Governments in Indonesia are able to adjust their regional expenditures in line with the decline in income due to the pandemic. Although the budget deficit is still under control, in general there has been an increase in the level of the budget deficit after the pandemic. The increase in the budget deficit occurred in 20 Provinces of 34 provinces or by 58.82%.

The largest increase in the budget deficit occurred in West Papua Province. In 2019 the province experienced a budget surplus of 2.5% in 2019, turning into a deficit of 1.5% in 2020 or
a change of -3.92%. Another province that experienced a surge in the budget deficit was North Sulawesi Province, from a deficit of 0.17% in 2019 to a deficit of 0.61% or an increase in the level of deficit by 0.45%. The next provinces that experienced a large increase in the budget deficit were the provinces of Kalimantan Utama and East Nusa Tenggara.

On the other hand, there is a provincial government that actually experiences a budget surplus, namely the Province of the Special Region of Aceh. This province originally had a deficit of 0.02% in 2019, in fact experienced a surplus in 2020 of 0.7%. In addition, the Provincial Governments that experienced a budget surplus were the Provinces of Papua and the Provinces of DKI Jakarta.

Figure 7. Trend of Tax Ratio of Provincial Government 2014 - 2020

Tax Ratio is an indicator of the government’s ability to collect potential revenue. From the observation of the graph of the development of the Provincial Tax ratio in 2014-2020, it shows that there was a decline in the ability of the Provincial Government in Indonesia to explore its revenue potential, although it was not significant. This was illustrated by the overall height of the graph in 2014 which was higher than the graph in 2020. In 2019 and 2020 where a pandemic occurred, from 34 provinces in Indonesia, 31 provinces or equal 91.17% experienced a decrease in the value of the Tax ratio. Meanwhile, the three provincial governments were able to increase the Tax Ratio in the midst of the pandemic.

The province that experienced the largest decline in the Tax Ratio was Papua Province by 34.76%, from 1.07% to 0.70%. Provinces with the second largest decrease in tax ratio was North Kalimantan Province at 18.36% and Bangka Belitung Province was at 17.04%.

The occurrence of an economic contraction will reduce the amount of state revenue, but it is not a valid reason for a decrease in the Tax Ratio. The decline in the rate of economic growth implies a decrease in the country’s productivity, and this will reduce the amount of taxes that must be paid to the state. In addition, the decrease in the Tax Ratio was also due to the existence of tax policies that eased the community and the decreased ability of government officials to collect taxes.
Meanwhile, there were three provinces that experienced an increase in the Tax Ratio, namely Maluku Province by 12.76%, then West Sulawesi Province by 1.46%, and West Papua Province by 1.26%.

By paying attention to the declining ability of the Provincial Government in Indonesia, which so far has a low ability to explore its revenue potential, it is getting worse with the pandemic. This is an indication of a decline in regional fiscal sustainability.

From observations on the graph of the development of Debt to Income per Province in 2014-2020 it can be concluded that the level of Debt per Income Provinces in Indonesia in general has experienced a significant increase. From 34 Financial Reporting of Provincial Government in the year 2014-2020, the result of analysis show that there were 30 Provinces or by 88.23% experiencing an increase in the ratio. This illustrates the threat to the fiscal sustainability of the provincial government in the midst of the pandemic.

The provincial government with the highest rate of increase was Banten Province, which increased from 2.3 to 19.43 or an increase of 745.32%. The second rank was North Sulawesi Province which increased from 6.13 to 33.47 or increased by 446.32%. North Sulawesi province was the province with the largest ratio value in Indonesia.

The increase in the value of the Debt-to-Income ratio is due to two things, namely an increase in the value of the debt of the Provincial Government, and the decreased ability of the Provincial Government to collect its potential income. The increase in the amount of debt or loans by the Regional Government was driven by the efforts of the Regional Government to support the National Strategic Project (PSN) through an infrastructure development loan to PT Sarana Multi Infrastructure, a BUMN under the Ministry of Finance. In addition, the local government’s low ability to collect its potential revenue is getting depressed by the Covid-19 pandemic. One example is that this pandemic has suppressed the selling price of new and used cars. This resulted in a decrease in the potential income for Motor Vehicle Taxes as the main income for the Provincial Government originating from Local Revenue.

From the analysis of several fiscal indicators in the Provincial Government, it can be
concluded that there is an increasing threat to regional fiscal sustainability in 2020. The pandemic has suppressed regional fiscal capacity. This should be a concern for regional fiscal managers in the Provincial Government and the Ministry of Finance, especially the Directorate General of Fiscal Balance.

The results of the fiscal sustainability analysis show an increasing threat to the fiscal sustainability of the provincial government in Indonesia. In order to maintain fiscal sustainability in the implementation of development, the Central Government and Regional Governments need to anticipate risks that may arise at this time and in the future. With adequate knowledge of these risks, appropriate fiscal policies can be issued.

The IMF mentions that there are several sources of risk that can threaten the fiscal condition of a government (International Monetary Fund, 2016). Of the seven sources of risk identified by the IMF, there are several sources of risk that are relevant to the conditions of Regional Government in Indonesia, namely Macroeconomic Shock, Natural Disaster, and Public Private Partnership.

This risk can lead to a decrease in a country’s productivity and inflation. This of course will result in a decrease in the potential for state revenues and a decrease in the government’s purchasing power in carrying out development. On the other hand, the fiscal needs of Regional Governments in Indonesia still depend a lot on Transfer Funds from the Central Government. The existence of macroeconomic shocks will have an impact on regional fiscal sustainability.

The possibility of Natural Disasters can increase the fiscal burden for the Central Government and Regional Governments. This should be a concern for the Central and Regional Governments considering that Indonesia is located in a disaster-prone area.

Each Local Government has cooperation with other parties in the form of a Public Private Partnership or cooperation in the supply of goods. This collaboration carries the risk of failure to comply with the contract which results in legal or material claims against the Regional Government.

The result of Focus Group Discussion show there are some new risks as a impact of Pandemic Covid 19 that can have an impact on fiscal pressure for local governments. First, Improper targeting of aid recipients in the National Economic Recovery Program. The Central Government has established several programs to restore the national economy, such as tax incentives and social assistance as well as various forms of working capital assistance. Mistakes in targeting aid recipients will result in slow economic recovery. The low level of regional economy will have an impact on regional income.

Second, Low capacity of Regional Financial Management Apparatus. The local government tax ratio in Indonesia which is still low (0.46–1.64%) is an indication of the weak capacity of local financial management officials in collecting potential income. This is a retroactive risk for local governments in maintaining their fiscal sustainability.

Third, improper regional Fiscal Policy stipulation. The low tax ratio may also be due to the suboptimal regional fiscal policy. Although the current regional fiscal needs are heavily dependent on transfer funds from the Central Government, this does not leave the need for appropriate fiscal policies, especially at a time when the community is still affected by the pandemic.

Fourth, Political Risk. Political Dynamics in the Regions has a very large influence on the budgeting structure of the Regional Revenue and Expenditure Budget (APBD). Thus, regional political conditions must remain conducive.
CONCLUSION

The occurrence of the Covid-19 Pandemic since the year 2019 has put pressure on the fiscal sustainability of the Central Government and Provincial Governments. Fiscal pressure is not only in the form of increased spending needs for handling the pandemic and economic recovery, but also in the form of declining state and regional income due to weakening national economic conditions.

The results of the analysis for the provincial government level conclude that in general, provincial governments throughout Indonesia are under pressure on their fiscal sustainability. This is reflected in the decline in the Tax ratio, the increase in Debt to Income, and the increase in the average budget deficit. Nevertheless, the fiscal policy of the Central Government to refocus the budget was able to reduce the level of pressure so that it does not exceed the generally accepted minimum limit.

Provinces that received the greatest fiscal pressure were North Sulawesi Province, West Papua Province, and Banten Province. In order to prevent increasing threats to fiscal sustainability, all Provincial Governments must anticipate risks that may occur appropriately. Fiscal policies and procedures must be evaluated in depth so that fiscal capacity can be safely maintained.

Fiscal risk has a threatening nature for fiscal solvency. Shocks from the occurrence of fiscal risk can have a large impact and are non-linear. Knowledge of Fiscal risk has implications for the preparation of fiscal policy and setting fiscal targets. Thus, fiscal authorities need a comprehensive understanding of these risks and their interrelationships. There is no single “magic bullet” that can protect against this threat so it requires an extensive network to mitigate it (International Monetary Fund, 2016). To anticipate fiscal risks that arise, Local Governments need to develop fiscal policies that can anticipate these risks so as not to interfere with the achievement of regional development goals and the Vision of Indonesia Gold in 2045. The main thing that must be done by Local Governments is to increase their fiscal capacity and fiscal independence. The low regional tax ratio must be anticipated by increasing the ability of regional revenue managers in collecting taxes and levies. In addition, fiscal policies in the area of regional income in the form of intensification and extensification of taxes and levies need to be developed to increase regional fiscal independence.

Local governments also need to improve the quality of regional spending. Regional expenditures must be spent on programs and activities that have a large impact on the community, as well as investments that have an impact in the form of increasing regional income. Activities related to handling the impact of the Pandemic must be carried out efficiently, effectively, and accountably.

With these two approaches, it is hoped that the fiscal capacity and fiscal independence of the Regional Government will be stronger so that they can anticipate the risks that may arise after the Covid-19 Pandemic.

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