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Pandemic and State Debt Settlement Scenarios

Endang Rudiatin[1], Wibowo Hadiwardoyo[2]
[1]Magister Administrasi Publik, FISIP, Universitas Muhammadiyah Jakarta, Jakarta, Indonesia
[2]Ilmu Manajemen, Sekolah Tinggi Ilmu Ekonomi Hidayatullah, Depok, Indonesia
E-mail: endang.rudiatin@umj.ac.id[1], bmgraph@yahoo.com[2]

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Abstract

Many countries are experiencing increased debt as a result of the COVID-19 pandemic. They assume that it will be dealt with when the economy returns to normal. But the pandemic is still ongoing even though it has passed a year and a half. The emergence of new variants of the Coronavirus has forced the re-imposition of even stricter restrictions. The direct result is a budget deficit, as state revenues fall while spending increases. The longer the reduction in human movement lasts, the larger the deficit will be, so it is still very possible for additional new debt to occur. This study presents various possibilities that a country can do to pay off debts that are difficult to repay, based on the experiences of several countries that have experienced it in the past. It is also a possible breakthrough alternative, despite facing complex domestic political challenges. The option is grounded in phenomenological research in virtual communities through the internet on the phenomenon of pandemics and state debt. The results show a common reaction by the State in overcoming the economic crisis, namely, increasing tax rates, reducing salaries and facilities for employees or officials, selling (shares) of State-Owned Enterprises (BUMN). And then the unpopular alternative offers such as leasing certain islands or areas to a foreign part, and other breakthroughs.

Keywords: *State debt, Budget deficit, Increase in tax rates, Sale of SOEs, Island rental*

INTRODUCTION

The World Health Organization (WHO) officially declared the status of the Coronavirus or COVID-19 as a pandemic on March 12, 2020. The state of the pandemic was announced following an outbreak when the Coronavirus infected 125,000 people and killed over 4.5000 worldwide. COVID-19, which started in Wuhan in December last two years, has spread globally across all continents except Antarctica. According to WHO, a pandemic has nothing to do with the severity of the disease, the number of victims or infection, but is an outbreak of a disease that occurs over a wide geographic area or spreads globally. Pandemic refers to an epidemic that has spread in several country or continent, usually affects a large number of people (Tempo.co, 2020; CNN.com, 2020; Kompas.com, 2020).

Until July 2021 in several countries, including Indonesia, there was a spike with the discovery of a new variant of the delta variant (B117). If this condition lasts for a long time, it will lead to a crisis in global economic growth. Various countries experienced budget deficits in 2020 and 2021 due to unavoidable emergency spending as a result of the COVID-19 pandemic. As a quick solution, they took an unpopular step: increasing debt. The United States announced in May 2020 to increase its debt to USD three Trillion (equivalent to Rp.

45,000 Trillion) (Assegaf, 2020). Meantime, Germany stated that it needed an additional debt of USD 258 billion (equal to 3,741 trillion rupiahs) to overcome the impact of COVID-19 (Amalia, 2020). Meantime, Indonesia added debt gradually, even until June 2021 there was still additional foreign debt amounting to USD 500 million from the Asian Infrastructure Investment Bank (AIIB) and the World Bank (World Bank), which makes Indonesia one of the Top 10 lower-middle-income countries with the hugest foreign debt in the world. Indonesia is in 7th rank with a foreign debt of USD 402.72 billion (equivalent to Rp 5,839 trillion) (Agustiyanti, 2020). Of the total debt, USD 180 billion of which is private debt. During the pandemic, Indonesia's additional debt is 8.5%. In percentage terms, this increase is still trivial compared to ASEAN countries and developed countries (e.g. the G-7). However, nominally, in ASEAN, the increase in Indonesia's debt is still huge.

A country is not an institution like a company that can go bankrupt or dissolve if it is unable to pay its debts. The existence of the state is considered to exist forever, and must settle its debts no matter what the circumstances. Even if a country experiences disintegration, its debts will still be borne by the parent country. Therefore, a scenario for the settlement of the state debt needs to be prepared, in case the pandemic cripples the economy in the long term. The economic paralysis will lead to a shrinking of the Gross Domestic Product (GDP) which will result in a decrease in tax payments. By shrinking GDP, the debt-to-GDP ratio will increase, and this can have political implications because the government may be deemed to have violated laws and recommendations of international institutions.

RESEARCH METHODS

This research uses library research. Library research; carried out using the literature (library) from previous research through literature study (Cawelti, 1969) with a content analysis approach (Hsieh & Shannon, 2005). Documentation means reviewing or interpreting written material based on its context. The material can be in the form of published notes, textbooks, newspapers, magazines, letters, films, diaries, manuscripts, articles & the like. Library research is a type of research that is used to collect in-depth information and data through various literatures, books, notes, magazines, other references, as well as relevant previous research results, to obtain answers to the problems discussed. This literature research focuses on the problem of the Pandemic which resulted in a State budget deficit that led to a debt condition. Sources of data collected are in the form of information or empirical data sourced from books, journals, research reports and other literature that supports the theme of this research.

Taking notes is arguably the most important stage and perhaps the culmination of the whole series of research. All sources that have been read are then processed or analyzed to obtain a conclusion drawn up in the form of a research report. Data collection technique is through the editing process, re-examination of the data obtained, especially in terms of completeness, clarity of meaning and harmony of meaning between one another; organize the data obtained with the necessary framework; and carried out further analysis of the results of organizing data using content analysis methods, so that the conclusion was found that is the result of the answer from formulation of the problem. The analyzed documents and manuscripts are checked for authentication.

The researcher uses content analysis to find out about the purpose, message, and effect of the communication content. They can also make inferences about producers and audiences from the texts they analyze. Content analysis can be used to measure the occurrence of a particular word, phrase, subject, or concept in a set of historical or contemporary texts. After coding is complete, the collected data is examined to find patterns and draw conclusions as an answer to the research question, what are the possibilities that the government can do to overcome the budget deficit. We conclude that it is important to examine the feasibility of each phase of the analysis process, including preparation, organization, and reporting of results. Simultaneously these phases should give the reader a clear indication of the overall feasibility of the study (Satu Elo, et.al, 2014). From our findings, we compiled a checklist for researchers trying to increase the trustworthiness of content analysis studies. The discussion in this article helps to clarify how content analysis shall be reported in a valid and understandable manner, which will be great benefit for reviewers of scientific articles. Data collection is carried out in stages and supported by documentation, including through: photos, videos, USB, etc. This documentation is useful for checking the data that has been collected.

Data analysis is done comparatively, historically and interpretively. Comparative; comparing the object of research with the concept of comparison, being Historical; conduct analysis of events in the past to find out why and how an event has occurred and Interpretive; interpret a meaning into a normative meaning. The instrument in the literature study research is the researcher himself (human instrument). He was also a planner, data collector, analyst, the interpreter of data, and in the end, he became a research results reporter.

RESULTS AND DISCUSSION

Induced Pandemic Additional Debt

Not all countries add to the debt to face a pandemic Covid-19. However, of the 14 countries whose additional foreign debt is above USD 10 billion, the total new debt has reached USD 1.17 trillion.

Table 1. Additional External Debt above USD 10 Billion in the Period 2020-2021

1	United States	406
2	Germany	229
3	China	200
4	Swiss	104
5	France	58
6	Spain	39
7	Italy	24
8	South Korea	23
9	Singapore	19
10	Malaysia	19
11	Philippines	14
12	Belgium	13
13	Russia	12
14	Taiwan	10
	Total	1.170

Source: International Debt Statistics (IDS), until March 2021.

Due to the ongoing pandemic, and restrictions on movement are continued, then economic growth can be expected to be unsatisfactory. While the stimulus is still to be given, emergency spending is reserved, and the budget deficit will still occur, so the probability of adding debt remains high in 2021 and 2022. Each country's strategy in dealing with debt varies depending on current internal capabilities and financial projections in few years. In general, the steps can be described as follows:

FINANCIAL CRISIS	STRATEGY
LEVEL 1	CASH FLOW MANAGEMENT
LEVEL 2	INCREASE DEBT
LEVEL 3	SELLING STATE'S ASSETS
LEVEL 4	INCREASE TAX RATE
LEVEL 5	CUT/REDUCE EMPLOYER'S COST

Figure 1. Debt Settlement Normative Scenario (source: Author, 2021)

If debt (old and new) can be solved by managing cash flow then the country is not experiencing a significant financial crisis. Cash management is done by increasing revenue through optimizing (without changing regulation), as well as make savings, re-allocation (*switching*), delays for non-urgent expenditure *(canceling),* as well as the restructuring of debt. When cash adjustments cannot settle all obligations in the short and long term, the state needs to increase debt (dig the hole to cover the hole). In other way to direct debt from donor institutions or countries, additional debt can be done through issuance of debt securities (bonds, sukuk, or other names) with longer maturities.

Step of increasing debt has been taken by many countries in times of financial stress, and under normal conditions can usually solve the problem. Normal conditions mean that the country's economy continues to grow, citizens' incomes increase, and there is no mismanagement of state's finance. As for abnormal conditions, this scenario may be unsuccessful because the bonds offered are not selling well, while donor agencies have run out of funds, as well as rich countries. So, it is necessary to take the next steps.

Sale of State's Assets

Sale of state's assets is common, as long as it is done in the right way and at a good price. Indonesia has sold 50.04% shares of Indosat in 2002, for Rp 6.72 Trillion in total gain. Malaysia also recently sold a 49.9% stake in Proton, the country's pride car manufacturer, to Zhejiang Geely Holdings, a Chinese company, for savings.

Selling state's assets does not have to connote loss. There are many choices that can be made so that the sale will actually bring profits, i.e through IPO (Initial Public Offering) of a BUMN that runs well. For example, the Kingdom of Saudi Arabia got funds of USD 29.4 billion from the IPO of Aramco, it's state-owned oil company, in December 2019. The Chinese government also got fresh funds of USD 22.1 billion from the IPO of its bank, Agricultural Bank of China in 2010.

Of course, it is not easy to get such a large market response, and the funds obtained are not immediately taken by the state because they are used for business development. But at least the IPO can be used as a profitable way of selling, and the state will take benefit from the growth of SOEs and subsequent stock price growth. Profitable sales like this can also reduce resistance at home, which is critical to political and economic stability.

The sale of assets can also be in the form of the release of some shares in BUMN, both in public or non-public companies. By selling only a portion of the shares, fresh funds are obtained but the government's control over BUMN is not lost. Then there is also option of selling unproductive assets, where their presence does not contribute much, or their absence can be easily replaced. One example of an asset sale that was deemed unproductive was the release of Pertamina's very large crude carrier (VLCC) tanker in 2004, arguing that Pertamina could not operate the giant tanker efficiently. This case raised pros and cons until a lawsuit was filed against the Minister of SOEs at the time, and it was only declared completed in 2009.

Increased Tax Rates

The next way to raise state revenue is by increasing tax rates. Tax is the largest source of income for any state, so raising the tax rate will give significant contribution to the state's cash flow. The increase in tax rates can be done on VAT or income tax.

But the government must consider people's purchasing power before determining the amount of the increase. It is also necessary to pay attention to the amount of taxes of other countries in the region or countries with the same economic level, so that their policies make sense and can be accepted by the public.

Table 2. Amount of Value Added Tax (VAT) for ASEAN

Country	**VAT Rate**
Indonesia	10%
Singapore	7%
Malaysia - Sales Tax - Service Tax Philippine	 10% 6% 12%
Thailand	7%
Cambodia	10%
Vietnam	10%

Source: Author, 2021.

Table 3. Tax Rate Personal Income (PPh OP) in ASEAN Countries (Highest Limit)

Number	**Country**	**Tariff for PPh OP**
1	Vietnam	35%
2	Philippine	35%
3	Thailand	35%
4	Indonesia	30% (then 35% in recent month)
5	Malaysia	30%
6	Myanmar	25%
7	Singapore	22%
8	Cambodia	22%
9	Brunei	0%

Source: Author, 2021.

Referring to tariffs in the region, for Indonesia, the maximum VAT rate increase is 2% from 10% to 12%. With this increase, Indonesia and the Philippines will become the countries with the highest VAT rates in ASEAN. While raising more than 2% will be difficult to accept because it will be the highest in the region. For the record, Malaysia imposes a 10% VAT rate (as Indonesia currently does) only on goods. However, on services, the country imposes a cheaper tax, which is 6%.

On the other hand, the current income tax (PPh) imposed in Indonesia is also high, at a maximum of 30%. This PPh rate is progressive, the bigger the income, the higher the tariff. If the tariff is to be increased, the maximum is 5% to 35%. With this upper limit, Indonesia will be the country with the highest personal income tax rate in ASEAN along with Vietnam, the Philippines and Thailand. Brunei Darussalam, one of the countries with the highest income per capita in the world, does not impose income taxes on its citizens, not even vehicle taxes, land and building taxes, and other levies. This pandemic has not prompted the Brunei government to change tax rates, which indicates there is no Covid-19-related financial crisis in Brunei.

Reduction of Employee Costs

In an emergency, the state can take a risky step, namely reducing the cost of civil servants, either partially or completely. This reduction in employee costs can be in the form of cutting/eliminating facilities, reducing salaries, or reducing the number of employees (PHK). Benefit reductions or pay cuts for high-paid employees are usually acceptable, but salary reductions for low-paid employees can trigger mass resistance. Therefore, multi-tariff cuts can be made so that the low-paid group only experiences a small cut or is close to zero. Former Malaysia's Prime Minister Dr Mahathir Mohamad made a salary reduction in response to debt in May 2018, shortly after he was sworn in. But it is only imposed on the Minister's salary, which is 10%. At that time, Malaysia's debt ratio reached 65% to GDP (sinarharapan.co, 2018).

Reducing the number of employees can be done by first targeting non-permanent employees, or contracted employees who are not renewed when their contract period expires. Meanwhile, permanent employees can be given the option of early retirement with adequate compensation. Reduction of employees in large numbers will pose a risk, because it adds to the unemployment rate which is a burden on the state. Therefore, this policy cannot stand alone, it needs to be accompanied by the provision of compensation, a kind of social safety net, job/entrepreneurial training, and other solutions. In addition, the image that the country is heading for bankruptcy also causes negative social impacts, psychological pressure in society, decreased compliance with the law, and public anger.

In a small scale, cases of pay cuts and layoffs at Paris airport have sparked anger that led to the blocking of Charles de Gaul Airport in early July 2021. The rioting protests required police to disperse with pepper spray. The airport said its revenue fell 80% during the pandemic. Greece took pay cuts and mass layoffs of civil servants in 2013 following the financial crisis and piling up debt. Greece invites 25 thousand of its employees to look for another job or be laid off within 8 months. The policy has sparked prolonged protests and mass strikes (voaindonesia.com, 2013). Greece's debt crisis began in 2009, and is considered resolved (temporarily) after the European Union and IMF disbursed new debt of up to USD 8.9 billion after the mass layoffs of civil servants.

Extra Ordinary Steps

In addition to various normative measures to avoid budget deficits, the state still has extraordinary options that can be taken. Several countries have been recorded as leasing islands or special areas to foreign parties with varying fees. The Philippines leased Subic Bay and its surroundings to the United States in 1946, to be used as a military base for 99 years. However, the base was eventually closed in 1992, before its lease expired due to public pressure. In Africa there is Djibouti, which also leases its land for 10 years for a US military base. There are also Turkey, Kyrgyzstan, Nigeria, and other countries doing the same. While China leased Hong Kong Island and the surrounding area to Britain for 99 years until it ended amicably in 1997. Not all leases were paid for in cash, but there were always bilateral agreements that could reduce the burden on the country.

Renting out islands to cope with the impact of the pandemic has really been taken up by the Republic of the Maldives (Maldives), an archipelago whose economy has been hit hard because it relies on tourism. The Maldives offers its 16 islands for rent for 50 years, provided that tenants must build certain tourism facilities on them (Lestari, 2021). The United Arab Emirates even sold Al Marjan, an artificial island covering an area of 660 hektares for USD 462 million, and has been on offer since 2018.

CONCLUSION

The national debt is a common problem, and at some stages can be dangerous. The Covid-19 pandemic has increased the amount of debt of many countries, giving rise to concerns that countries will not be able to pay their debts. Apart from having an economic impact, the debt problem can also become a political issue that can lead to instability, even a collapse of the government. But in fact, there are solutions that the state can take to deal with debt, even if it sometimes has painful consequences. Therefore, in addition to taking steps to settle debts, the government needs to simultaneously conduct adequate explanations, provide social safety nets, stimulus, and compensations to reduce the burden on the affected community.

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