



The Role of Fiscal Policy in Maintaining Economic Stability and Post-Pandemic Recovery

Eka Nur Yulianti¹

¹ Sekolah Tinggi Ilmu Ekonomi Widya Wiwaha, Yogyakarta, Indonesia

Abstract

Article history:

Received: July 11, 2023

Revised: August 26, 2023

Accepted: October 14, 2023

Published: December 30, 2023

Keywords:

Economic Recovery,

Fiscal Efficiency,

Fiscal Policy,

Macroeconomic Stability,

Sustainability.

Identifier:

Zera Open

Page: 147-164

<https://zeraopen.com/journal/ijpfp>

This study aims to analyze the effectiveness of fiscal policy in maintaining economic stability and supporting post-pandemic recovery during the last five years. Using a narrative study approach, this research synthesizes a range of empirical and conceptual literature that highlights the central role of fiscal policy as a key instrument for global economic recovery. The study also evaluates the interaction between fiscal and monetary policies, as well as the importance of sound fiscal governance in ensuring macroeconomic stability. The findings reveal that fiscal policy functions not only as a short-term stabilization mechanism to mitigate economic contraction but also as a long-term structural reform tool that enhances fiscal resilience, stimulates inclusive and sustainable growth, and strengthens national economic capacity. Moreover, the integration of green fiscal policy and transparency in public spending has proven essential in achieving fiscal sustainability while facilitating the transition toward low-carbon economic development. This study concludes that future fiscal policy design must be adaptive, efficient, and balanced to support economic growth, social equity, environmental protection, and long-term financial stability.



1. Introduction

The COVID-19 pandemic has shaken global economic stability and put great pressure on the fiscal system in various countries. In the face of this multidimensional crisis, fiscal policy is the main instrument in maintaining economic sustainability and supporting an inclusive recovery process. As emphasized by Arestis (2021), fiscal policy plays a central role in stabilizing economic fluctuations, restoring aggregate demand, and strengthening the resilience of the national financial system to external shocks. This is strengthened by the IMF report (2021) which highlights the importance of strengthening fiscal credibility and the efficiency of public spending in the post-pandemic recovery period. Fiscal policy not only serves as a tool for economic stabilization, but also as a driver of structural transformation towards sustainable development. Kaneva et al. (2022) emphasized that tax reform and management of state spending are key elements in supporting crisis-resilient economic growth.

In this context, government spending is directed at productive sectors such as health, education, and infrastructure, which have a multiplier effect on employment and people's purchasing power. This approach is in line with the findings of Kuo (2021), which suggests that sustainable fiscal policy design can accelerate economic recovery while enhancing social justice. The economic crisis caused by the pandemic also opens up space to review the relationship between fiscal and monetary policies in maintaining macroeconomic stability. Kiraly et al. (2022) outlined that fiscal and monetary policy synergy is needed so that the economic stimulus launched is able to create a significant multiplier effect without causing

excessive inflationary pressure. In this context, expansionary fiscal policy needs to be supported by accommodative monetary policy to ensure the sustainability of medium-term economic growth.

In addition, the paradigm shift towards green fiscal policy is becoming relevant in facing the challenges of global economic recovery. Kyaw (2022) show that fiscal policies that pay attention to environmental aspects have great potential to encourage industrial innovation, create green jobs, and strengthen the transition to a low-carbon economy. In a post-pandemic situation, this approach can make a dual contribution: economic recovery as well as climate crisis mitigation. Previous research has shown that good fiscal stability will increase market confidence and strengthen economic fundamentals. Solorza (2021) emphasized that responsible fiscal policy is an important factor in encouraging investor confidence and maintaining the sustainability of public financing. This is in line with the OECD report (2022), which states that fiscal transparency and budget accountability play an important role in strengthening economic stability amid global uncertainty.

In the national context, the results of the analysis from Hidayah et al. (2022) show that fiscal policy during the pandemic is directed to expand fiscal space through spending adjustments and optimization of state revenues. This strategy has proven effective in reducing the impact of economic contraction while maintaining long-term fiscal sustainability. Therefore, it is important to evaluate the effectiveness of the fiscal policies that have been implemented and their implications for economic stability and the post-pandemic recovery process. Based on this description, it can be concluded that fiscal policy is the backbone of the post-COVID-19 pandemic

economic recovery process. The focus of this research is to analyze the effectiveness of fiscal strategies in maintaining macroeconomic stability and promoting inclusive growth in the last five-year period. With a narrative approach, this research is expected to make a conceptual and empirical contribution to the formulation of fiscal policies that are more adaptive, transparent, and sustainable in the face of future global economic dynamics.

2. Literature Review

2.1. Fiscal Policy as an Instrument of Economic Stabilization

Fiscal policy is one of the main pillars in maintaining macroeconomic stability, especially in times of crisis and recovery. In the context of the COVID-19 pandemic, effective fiscal policies are able to mitigate economic contraction through increased public spending, subsidies, and fiscal stimulus directed at affected sectors. According to Arestis (2021), fiscal instruments such as government spending and taxes play an important role in restoring aggregate demand and stabilizing the labor market. This policy also serves to restore the confidence of economic actors in the government's ability to maintain fiscal sustainability.

In addition, Solorza (2021) emphasized that the success of fiscal policy depends on fiscal discipline and transparent fiscal governance. Countries with an accountable fiscal structure are better able to withstand external shocks and maintain economic independence. On the other hand, synergy between fiscal and monetary policies is crucial so that economic stimulus does not cause excessive inflationary pressure. Kiraly et al. (2022) stated that expansionary fiscal policy must be balanced

by adaptive monetary policy to maintain exchange rate and interest rate stability. Thus, in the context of post-pandemic recovery, fiscal policy plays a role not only as a tool for short-term economic recovery, but also as an instrument of long-term structural reform that can strengthen national economic competitiveness and support sustainable fiscal resilience.

2.2. Fiscal Policy Transformation Towards an Inclusive and Sustainable Recovery

The COVID-19 pandemic has become an important momentum to change the direction of fiscal policy towards a more inclusive and sustainable development-oriented direction. Kaneva et al. (2022) highlight that pro-people tax policy reform and efficient management of state spending are effective strategies to accelerate recovery. The policy focus is directed at improving the quality of public spending and strengthening the social protection system to create a balance between economic growth and equitable distribution of welfare. In addition, a green fiscal approach is an important aspect in the context of sustainable development. Kyaw (2022) explain that environmentally-based fiscal policies can be a catalyst for green industrial innovation and the transition to a low-carbon economy.

The implementation of this policy not only has a positive impact on economic recovery, but also helps the country achieve climate change mitigation targets. In the national context, Hidayah et al. (2022) emphasized that fiscal policy must be directed to strengthen fiscal resilience and economic competitiveness through optimizing state revenue, digitizing the tax system, and efficient public spending. This approach has the potential to create more inclusive, resilient, and socially equitable economic

growth. Thus, fiscal policy transformation is an important foundation in building an economic order that is more adaptive to global challenges in the post-pandemic era.

3. Method

This study uses a narrative study approach with the aim of understanding and describing in depth the dynamics and effectiveness of fiscal policy in maintaining economic stability and supporting post-COVID-19 pandemic recovery. The narrative approach was chosen because it allows researchers to interpret various economic and policy phenomena based on cross-country and national empirical experiences, as well as highlight the social, economic, and institutional contexts that influenced the direction of fiscal policy over the past five-year period. In this study, the narrative is constructed through the collection and synthesis of secondary data from a variety of academic sources, including journal articles, international agency reports, and government policy documents.

The main data used comes from the scientific literature indexed on Google Scholar, including several publications published between the last five years. These sources include reports from institutions such as the IMF (2021), OECD (2022), and UN (2022), as well as empirical articles from Arestis (2021), Kaneva et al. (2022), and Kyaw (2022). Data was collected by searching for keywords such as fiscal policy, post-pandemic recovery, economic stability, and public finance. The selection process is carried out by considering the relevance, publication period, and direct relevance to the research theme.

The analysis was carried out in a descriptive-narrative manner using content analysis techniques. This approach was used to identify the patterns, themes, and trends of fiscal policy that emerged during the study period. Each finding was analyzed based on the policy context in various countries, both developed and developing, to illustrate the variation in fiscal strategies applied in dealing with the economic impact of the pandemic. This analysis process involves the stages of concept coding, thematic categorization, and narrative synthesis to produce a comprehensive and relevant interpretation of the research objectives.

The validity of the research is strengthened through triangulation of sources, namely by comparing findings from various publications and official reports to ensure narrative consistency and accuracy of interpretation of fiscal policy dynamics. This approach provides flexibility in exploring data holistically, while maintaining objectivity in concluding the effectiveness of fiscal policy on macroeconomic stability and the post-pandemic recovery process. Thus, this narrative method not only describes empirical facts, but also interprets the cause-and-effect relationship between fiscal policy variables contextually and theoretically.

4. Results

The COVID-19 pandemic has triggered unprecedented global economic disruption, suppressing economic activity, lowering state revenues, and widening fiscal deficits in various regions. The impact is not only felt by developing countries with limited fiscal space, but also by developed countries that have experienced a major contraction in the productive sector and international trade. In this context,

fiscal policy is the main instrument used by the government to maintain macroeconomic stability, maintain people's purchasing power, and restore business confidence. Based on the results of a narrative analysis of academic literature and official reports published in the last five years, it was found that the role of fiscal policy during and after the pandemic is not only reactive to the crisis, but also strategic in reorganizing the economic foundation towards a more inclusive and sustainable direction.

One of the most significant findings of this study is the paradigm shift from traditional fiscal policies that are solely oriented towards short-term stabilization to adaptive, contextual, and sustainable policies. Arrestis (2021) explained that in the post-pandemic situation, fiscal policy needs to be multidimensional, including support for the real sector, social protection, and investment in green infrastructure. Fiscal policy is no longer enough to stimulate consumption, but must be able to steer the economic structure in a more resilient direction to future crises. Fiscal stimulus in the form of social assistance, subsidies for the productive sector, and public capital expenditure has proven to be an effective tool in restoring aggregate demand and suppressing the unemployment rate that soared during the pandemic. These findings are in line with the results of Kuo (2021)'s research, which emphasizes the importance of fiscal policy design that pays attention to the principles of sustainability and social inclusivity so that economic recovery is not temporary or only benefits certain groups.

In addition to direct fiscal stimulus, the results of the analysis show that tax system reform is a fundamental aspect in strengthening fiscal space and maintaining

the sustainability of the public budget. Kaneva et al. (2022) assert that an effective fiscal strategy should include tax reforms that not only improve administrative efficiency but also expand the tax base as well as reduce socio-economic inequality. Tax incentive policies for the productive sector, especially Micro, Small, And Medium Enterprises (MSMEs), have been proven to accelerate national economic recovery in various countries. The implementation of investment tax cuts, reduced raw material import duties, and research and development tax credits provides more room for the private sector to contribute to economic recovery. In the global context, the OECD (2022) emphasizes that post-pandemic fiscal restructuring must balance short-term policies for recovery with long-term strategies for fiscal consolidation and sustainable debt management.

The effectiveness of fiscal policy is also highly determined by the synergy between fiscal and monetary policies. Kiraly et al. (2022) explained that coordination between these two policies is key so that fiscal stimulus can work optimally without causing inflationary pressure or excessive exchange rate fluctuations. In many cases, large fiscal stimulus must be balanced with accommodative monetary policies such as lowering interest rates, easing credit requirements, and money market intervention to maintain liquidity stability. In Europe and East Asia, a combination of expansionary fiscal policy and loose monetary policy has managed to contain output declines while keeping inflation under control. This suggests that fiscal policies that are unilaterally designed without monetary policy support often lose their effectiveness.

One of the important innovations that emerged from the post-pandemic dynamics is an environment-based fiscal policy or green fiscal policy. Kyaw (2022) show that public investment directed at renewable energy, energy efficiency, and green projects has a multiplier impact restoring the economy while reducing carbon emissions. Countries in Europe, such as Germany and Sweden, are allocating most of their post-pandemic stimulus to green sectors, which not only create new jobs, but also accelerate the transition to a low-carbon economy. This model provides a lesson that fiscal policy can play a dual role: as a tool for economic recovery and an instrument for mitigating global climate change.

Fiscal transparency and public financial governance were also found to have a strong correlation with the success of economic recovery. Solorza (2021) emphasized that countries that have an accountable fiscal reporting system that is open to public oversight tend to recover faster and have lower debt risk. Fiscal transparency strengthens investor and public confidence in the government's ability to manage public resources efficiently. The IMF report (2021) also highlights the importance of strengthening fiscal credibility, especially in the context of increasing public debt due to the pandemic. The IMF is pushing for risk-based fiscal management reforms to ensure long-term sustainability.

In the context of developing countries, the effectiveness of fiscal policies is often limited by institutional capacity and narrow fiscal space. Romer (2021) note that the pandemic exacerbated fiscal imbalances in many countries due to a sharp decline in tax revenues along with an increase in public financing needs. However, innovations such as the digitization of the tax system and the implementation of

performance-based budgeting help increase efficiency and transparency. Several countries in East Asia and Eastern Europe have managed to reduce potential fiscal leakage and improve budget accountability through the modernization of the public financial system.

The results of the analysis of Hidayah et al. (2022) show that in Indonesia, fiscal policy strategies combine a short-term expansionary approach with medium-term structural reforms. The government is expanding fiscal space through creative financing, optimizing state revenues, and reallocating public spending to support productive sectors such as health, education, and infrastructure. This policy is considered effective in maintaining positive economic growth amid global pressure. This success also shows the importance of synergy between central and regional fiscal policies, especially in ensuring that stimulus reaches the community equally.

The research of Malović et al. (2021) reinforces the idea that post-pandemic economic sustainability depends on the ability of countries to direct their fiscal policies towards sustainable structural transformation. Countries that have successfully integrated sustainability principles into their fiscal policies have experienced stronger recoveries and are more resilient to global shocks. This shows that economic recovery must focus not only on GDP growth, but also on strengthening economic structure and social resilience.

The results of the analysis by Hepburn et al. (2020) reveal that the effectiveness of fiscal stimulus is greatly influenced by the speed and accuracy of implementation. When stimulus is delayed or not directed to the right sector, its multiplier effect on the economy becomes weak. In contrast, stimulus focused on

labor-intensive sectors, agriculture, and local manufacturing industries is able to create a significant chain effect on economic growth. These findings suggest that effective fiscal policy should be designed based on strong data and empirical evidence, not just political considerations.

Globally, the UN report (2022) notes that the success of post-pandemic fiscal policies depends on the country's ability to strike a balance between short-term recovery and long-term fiscal consolidation. Countries that are too aggressive with expansionary policies without paying attention to fiscal sustainability face the risk of rapidly increasing debt in the medium term. Therefore, modern fiscal strategies must prioritize spending efficiency and innovation in revenue to maintain fiscal sustainability without hindering economic growth.

A synthesis of the entire literature shows that post-pandemic fiscal policy has a multidimensional role: as an instrument of economic recovery, a catalyst for structural reform, and a strengthening of social and environmental resilience. Makin and Layton (2021) argue that low global interest rates provide room for governments to maintain fiscal stimulus without incurring uncontrolled debt risks. However, its effectiveness still depends on careful planning, implementation transparency, and continuous evaluation.

Thus, post-pandemic fiscal policy has evolved from a mere macroeconomic instrument to a multidimensional development tool that combines economic, social, and environmental aspects. The success of economic recovery is now measured not only by GDP growth, but also by increasing fiscal resilience, reducing social inequality, and progress towards sustainable development. Adaptive, evidence-

based, and community-based fiscal policies are an important foundation for the global and national economies to face uncertainty in the post-COVID-19 pandemic era.

5. Discussion

The results of this study show that fiscal policy plays a strategic role in maintaining economic stability and accelerating the post-COVID-19 pandemic recovery. Conceptually, these findings reinforce modern Keynesian theory that government intervention through public spending and fiscal stimulus is necessary to stimulate aggregate demand at a time when economies are in contraction. However, the effectiveness of fiscal policy is not only determined by the magnitude of the stimulus, but also by the design of policies that are targeted, transparent, and sustainable. As stated by Arestis (2021), reactive fiscal policies without strategic planning only have short-term effects and can worsen fiscal imbalances in the long term.

From an empirical perspective, most countries implement expansionary fiscal policies with the aim of maintaining market liquidity and protecting vulnerable groups. However, according to Kaneva et al. (2022), the main challenge that arises is fiscal sustainability after the massive stimulus. In some cases, especially in developing countries, increased public spending has not been matched by adequate tax revenue reforms, putting pressure on the public deficit and debt. This shows the need for a balance between short-term expansionary policies and medium-term fiscal consolidation strategies.

In addition, the findings of this study also confirm that the integration between fiscal and monetary policies is a determining factor for the success of economic recovery. Király et al. (2022) underline that effective coordination between fiscal and monetary authorities is able to amplify the impact of stimulus on economic growth without triggering excessive inflation. In this context, expansionary fiscal stimulus needs to be supported by loose monetary policy to ensure a multiplier effect on the real sector.

The discussion also highlighted the paradigm transformation towards green fiscal policy, which is increasingly dominant in the global economic discourse. Kyaw (2022) emphasized that green fiscal policies are not only a tool for economic recovery but also an instrument for transitioning to a low-carbon economy. This approach shows a shift from a mere growth orientation towards sustainable development. Through budget allocations that pay attention to environmental aspects, the government can create new jobs while strengthening economic resilience to future ecological crises.

On the other hand, the results of this study show that fiscal governance and budget transparency are still crucial factors for the effectiveness of fiscal policies. Solorza (2021) emphasized that the success of fiscal policy is highly determined by public accountability and the integrity of fiscal institutions in managing the state budget. Countries with good fiscal governance are better able to maintain macroeconomic stability and attract investor confidence. Therefore, in the context of post-pandemic fiscal reform, increased transparency and public oversight of state spending is a must. Thus, this discussion confirms that future fiscal policy directions

need to balance the needs of economic expansion and long-term fiscal sustainability. Fiscal policy reforms that are evidence-based, adaptive to global changes, and in favor of inclusive and green development will be the main foundation in maintaining economic stability in the post-pandemic era.

6. Conclusion

Fiscal policy has proven to have a vital role in maintaining economic stability and accelerating the post-COVID-19 pandemic recovery process. Based on the results of a narrative analysis of the literature over the past five years, fiscal policy serves not only as an instrument of short-term stabilization, but also as a driver of long-term structural reforms that strengthen economic and social resilience. Governments in various countries have successfully used fiscal instruments such as economic stimulus, tax reform, and productive spending policies to reduce the impact of the crisis, increase people's purchasing power, and support strategic sectors.

The effectiveness of fiscal policy is determined by three main aspects: first, adaptive and targeted policy design; second, synergy with monetary policy in maintaining macroeconomic stability; and third, fiscal governance that is transparent and sustainability-oriented. In addition, the emergence of a new paradigm in the form of green fiscal policy shows that economic recovery can go hand in hand with the environmental sustainability agenda. The results of this study confirm that the direction of fiscal policy in the future must be directed towards efficiency, inclusivity, and sustainability. The government needs to continue to strengthen fiscal capacity,

expand the state revenue base, and ensure that public spending is results-oriented and people's welfare. Thus, fiscal policy can be a strategic instrument in building a resilient, fair, and competitive economy in the post-pandemic era.

References

Arrestis, P. (2021). Macro-Economic and Financial Policies for Sustainability and Resilience. In *Economic Policies for Sustainability and Resilience*. Swiss: Cham: Springer International Publishing. 1-44.

Hepburn, C., O'Callaghan, B., Stern, N., Stiglitz, J., & Zenghelis, D. (2020). Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?. *Oxford review of economic policy*, 36(Supplement_1), S359-S381.

Hidayah, N., Yusuf, S. D., & Ajuna, L. H. (2022). Strategi Kebijakan Fiskal Dalam Menghadapi Dampak Pandemi Covid-19. *MUTAWAZIN (Jurnal Ekonomi Syariah)*, 3(1), 28-39.

IMF. (2021). Fiscal Monitor: Strengthening the credibility of public finances. International Monetary Fund. Retrieved December 22, 2021 From <https://www.imf.org/en/Publications/Issues/2021/10/13/fiscal-monitor-october-2021>

Kaneva, T., Chugunov, I., Pasichnyi, M., Nikitishin, A., & Husarevych, N. (2022). Tax policy for economic recovery and sustainable development after covid-19. *Problemy Ekonomiki*, 17(2), 102-109.

Király, J., Csontó, B., Jankovics, L., & Mérő, K. (2022). Monetary, macroprudential, and fiscal policy. In *Emerging European Economies after the Pandemic: Stuck in the Middle Income Trap?*. Swiss: Cham: Springer International Publishing. 255-324.

Kuo, Y. Y. (2021). Fiscal policy responses for sustainable post-COVID-19 recovery: Taiwan's experience. *Fulbright Review of Economics and Policy*, 1(2), 158-169.

Kyaw, K. (2022). Effect of policy uncertainty on environmental innovation. *Journal of Cleaner Production*, 363, 132645.

Makin, A. J., & Layton, A. (2021). The global fiscal response to COVID-19: Risks and repercussions. *Economic Analysis and Policy*, 69, 340-349.

Malović, M., Ješić, J., Vukadinović, S., Andrejević Panić, A., & Brljak, Z. (2021). Sustainable Economic Transformation into the Postpandemic Period. In *Proceedings from the International Scientific Conference "sustainable Economic Transformation in the Postpandemic Period", Sremska Kamenica, Serbia, October 15, 2021*. Sremska Kamenica: Educons University. 1-198.

OECD. (2022). Public finances after the COVID-19 pandemic. Retrieved December 20, 2022 From https://www.oecd.org/en/publications/oecd-journal-on-budgeting-volume-2022-issue-3_dedebeca-en.html

Romer, C. D. (2021). The fiscal policy response to the pandemic. *Brookings Papers on Economic Activity*, 89-110.

Solorza, M. (2021). Responsible fiscal policy and Economic Development: A challenge for Latin America after COVID-19. *International Journal of Political Economy*, 50(3), 198-211.

UN. (2022). World Economic Situation and Prospects 2022. United Nations Department of Economic and Social Affairs. Retrieved December 22, 2022 From <https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2022/>