



How to conduct a Macroeconomic policy in a Second-best world? The case of Indonesia

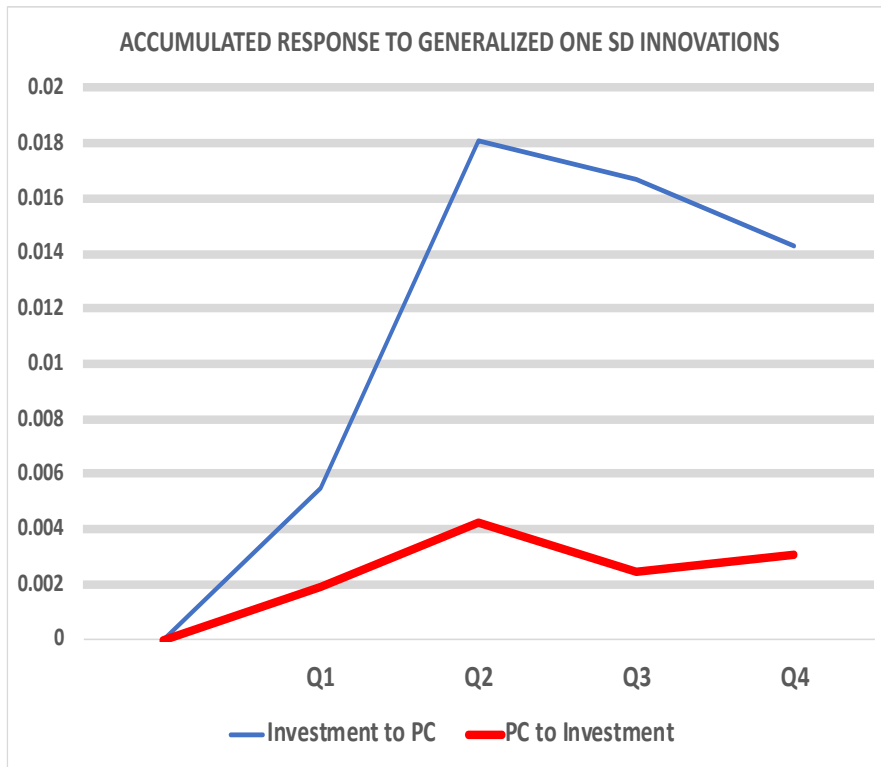
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U-Shaped recovery?

- After re-opening: showing improvement but short-lived; flat on July-Aug. Why?
- Main problems: weak demand, external factors
- Middle lower income group: spend money but low purchasing power (traditional markets recovered immediately)
- Middle upper income group: does not spend much money and have a luxury to choose to stay at home (average visit shopping mall post re-opening still less than 50%)
- Change of behaviour (online shopping)
- Vaccine ? Will take some time : 25 mil? 68.000 vaccine per day?
- Economics of scale: with health protocol in place, difficult to achieve Break Even Point

Why do we need fiscal expansion?



Impulse Response Function

- External sector: weak
- Real challenge will be in 2021: will private investment kick in in 2021?
- Loan to Deposit Ratio ↓
- Credit crunch vs liquidity
- Consumption vs investment; consumption will induce investment after 1 quarter

Fiscal stimulus as a jump start

- Fiscal: extend cash transfer (BLT) to lower middle income:
- National Economic Recovery Program (PEN): credit guarantee, interest rate subsidy, tax incentive, health sector

Policies in the 2nd best world

- **Fiscal policy: how do we finance the deficit?**
- **Limited domestic pool of fund, high yield at the international market; IMF Stigma, CMIM untested; bilateral swap**
- **Burden sharing with Bank Indonesia: size; tradable, clear time frame; market rate**
- **Spending: ability to spend (as of July 2020; budget deficit/GDP 2%; govt rev drop -12.6%; spending 1.3%); absorption of PEN 27% as of Sept; SMEs 47%; Social assistance 55.7%, sectoral 16.8%**
- **The 1998 and Century case trauma; Indecisiveness due to fear of corruption and coordination problems**
- **Data on social assistance: identifying aspiring middle class: kartu pra kerja, telcos, community base (Basri, Hanna, Olken, 2020)**
- **Getting pandemic under control should be the top priority; Pragmatic on policy, how to work within constraints**
- **Fiscal discipline vs stimulus**

Thank you