# Journey to Recover and Prosper through Sustainable Development

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## Economic Recession

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Note: *) Baseline refers to a scenario of severe growth slowdown followed by a strong recovery, while lower case refers to a scenario of a deeper contraction followed by a sluggish recovery.  
Source: IMF, World Economic Outlook Oct-20; World Bank, Global Economic Prospect Jun 20 and East Asia & Pacific Economic Update Oct-20; OECD, Economic Outlook Interim Report Sep-20; and Bloomberg
Some lesson learned from the case of Indonesia

Swoosh-Shaped recovery?

• After re-opening: showing improvement but short-lived; flat on July-Sept. Why? Main problems: weak demand, external factors
• Social distancing: biased in favour towards middle-upper income group if the govt fail to provide social protection
• 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)
• Economics of scale: with health protocol in place, difficult to achieve Break Even Point
• Vaccine? Will take some time: 102 mil? 280.000 vaccine per day? Distribution
Why do we need fiscal expansion? The case of Indonesia

- 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): health sector, credit guarantee, interest rate subsidy, tax incentive

Impulse Response Function
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
- 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%
- Coordination problems, legal aspect,
- 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
Learning from the past to build a resilient future

K-Shape recovery?

• Social distancing: biased in favour towards middle-upper income group if the govt fail to provide social protection
• Inequality:
• Redefinition of job
• Social protection: data problem, work with telco, big data, pre employment card
• Gender gap, home technology, financial inclusion
• Access to health, education, digital tech
Digital economy

• Lockdown/Social distancing: impact on economy
• Recovery is taking place but uneven: digital vs non digital, health sector etc.
• Accidental transformation: shift to business models that leverage digital infrastructure for production, supply chain management and the delivery of goods and services.
• Digital technologies: big data, artificial intelligence, and modelling, in the pandemic response, mass monitoring, contact tracing, and integrating databases (for example, health information with immigration data); government services
• Digital infrastructure
• Huge investment: financing?
• Cyber security
• Building trust in domestic and cross-border data flows with policies that address concerns over privacy, consumer protection, and security will also be critical.
• Regulatory regime: government 4.0

Changing of global supply chain pattern

• Don’t put all of your eggs in one basket
• Relocation of investment
• Opportunities for some Asian countries
• Investment climate
• Infrastructure
• Human capital
• Institution
Towards Green Recovery

Basri, Hanna and Olken (2020)

- Historically, fuel subsidies have been very popular in the developing world where large informal sectors and a lack of recordkeeping make it challenging for governments to identify who is poor.
- The problem, encourage overuse of fuel, which has horrendous environmental implications. Rather than subsidizing fuel, economists often point out, we should be taxing it to address these externalities. One recent study estimates that eliminating oil and gas subsidies alone could have reduced global carbon emissions by 5-6% in 2015, and by 28% if coal subsidies had also been eliminated.
- Rock-bottom oil prices mean that many countries could allow the market to set fuel prices without triggering any price change at the pump. And once global oil demand (and thus prices) recovers, these countries will no longer be on the hook for billions of dollars in fuel subsidies each year.
- Those savings could then be used to repay the debts incurred as a result of COVID-19, and to finance social-assistance programs well into the future. Equally important, these countries would no longer be actively subsidizing the climate crisis.
- Energy efficiency and incentive for renewable energy

Thank you