ABSTRACT

The objective of this study is to analyze the impact of fiscal and monetary policy on Indonesia’s economic performance. Considering that internal gaps (savings gap and fiscal gap) and external gap (foreign exchange gap) exist at any economy, therefore it was necessary to build a macroeconomic model which integrates the three gaps. The Indonesia’s Three-Gap Macroeconomic Model built as an econometric model in the form of a simultaneous equations system and estimated using Two-Stage Least Squares method by using time series data in the year of 1969-2000.

Empirical result shows that negative gap in private sector (savings deficit) is not a constraint to economic growth if there is an augmentation in investment financed by foreign capital inflows (foreign direct investment and foreign loans). Therefore it is very important to stimulate an excellent atmosphere to boost up investment. On the other hand, negative gap in public sector (fiscal deficit) is a constraint to Indonesia’s economic growth because the fall of public income will deteriorate fiscal potency. If the deficit is covered by increasing loans, it would increase interest payment. Therefore, besides exercising taxational intensification and extensibility policy, government spending should be spent efficiently and effectively.

At the foreign exchange gap, the higher the net export, the higher the economic growth. At the capital account, while increasing the cash inflows (foreign investment and foreign loans) to the private sector would increase the investment, on the contrary, decreasing public foreign loans would make public spending more efficient and could increase economic growth.

Since Indonesia’s economy experienced an economic downfall initiated by the currency crisis in 1997, in the future, the role of the fiscal and monetary policy would be very crucial in accelerating economic growth.

Keywords: savings gap, fiscal gap, foreign exchange gap, three-gap, econometric model, economic growth.