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**Statement by Mr. Bevilaqua, Mr. Fuentes, and Ms. Mahabir on Indonesia  
(Preliminary)  
Executive Board Meeting  
March 11, 2022**

Thank to staff for the report and the selected issues paper and Ms. Lim, Mr. Mochtar, and Mr. Kurniawan for the helpful statement. The recovery of the Indonesian economy has gained momentum since mid-2021 on the back of a comprehensive and timely emergency response and an accommodative policy mix. Growth is expected to return to pre-pandemic levels in 2022 supported by rising commodity prices, low inflation and improving credit activity. Yet, phasing out all pandemic-related measures will require a process cautiously executed and communicated, along with the steadfast implementation of the authorities' reform agenda to address longstanding structural challenges and boost medium-term growth prospects.

**The authorities have taken important steps towards strengthening public finances despite the pandemic.** We welcome the authorities' intentions to reinstate the budget deficit ceiling by 2023 and discontinue the financing from the Bank of Indonesia later this year. Furthermore, the tax reform bill passed last October is expected to impact revenue mobilization this year, supported by the compound effect of a gradual increase in the VAT rate, the reduction of exemptions, a new personal tax band, and the cancelation of a reduction in corporate tax rate. We also take note of the authorities' plans to improve the IT infrastructure to support higher tax compliance, strengthen auditing, and reduce tax avoidance.

**The monetary policy stance has appropriately supported the recovery while maintaining inflation below target.** Nonetheless, the Bank of Indonesia should continue to monitor inflation dynamics closely and adjust its policy stance as needed. In this regard, we take note of the plans to gradually lower the level of liquidity in the financial system by

increasing the reserve requirement ratio. We welcome the health of the banking system, particularly the relatively low levels of NPLs and the steadfast improvement in credit growth and profitability. That said, we concur with staff on the need to intensively supervise the unwinding process of the crisis-related measures in the financial sector to mitigate risks to asset quality and exposition to the public sector. We also take note that the country has implemented a significant number of recommendations made in the 2017 FSAP. It has been suggested that the outstanding recommendations will be addressed in the forthcoming financial sector omnibus bill, *could staff comment on the potential impact of this legislation on financial stability moving forward?*

**In any case, monetary authorities should be ready to act in response to the tightening global financial conditions.** The country's open capital account and reliance on portfolio inflows to finance its current account and budget deficits makes the economy susceptible to periods of global instability, particularly in an environment dominated by rising policy rates in advanced economies. Therefore, we see merit in staff recommendation to allow the exchange rate to play its role as shock absorber to preserve monetary policy space to continue supporting the economy. In this regard, we take note of the use of unconventional policy tools by the Bank of Indonesia to strengthen the rupiah and avoid episodes of disorderly conditions in the exchange rate market.

**Finally, authorities are taking steps to mitigate climate risk.** Indonesia is highly susceptible to climate change and has a large coal sector. We take positive note of the various plans to tackle climate change issues, including the implementation of a carbon tax by 2022, the establishment of an emission trading system by 2024, a moratorium on new plans for coal-fired power plants and achieving net zero emissions by 2060.

With these remarks we wish the authorities success in their future endeavors.