

The contents of this document are preliminary and subject to change.

GRAY/22/730

March 9, 2022

**Joint Statement by Mr. Binzarah, Mr. Mohieldin, Ms. Alaqla, and Ms. Merhi on  
Indonesia  
(Preliminary)  
Executive Board Meeting  
March 11, 2022**

We thank staff for the comprehensive set of reports and Ms. Lim, Mr. Mochtar, and Mr. Kurniawan for their informative Buff statement. We broadly agree with the thrust of staff appraisal and would like to offer the following points for emphasis.

- 1. Indonesia's prompt policy response to the pandemic, strong policy track record, and prudent macroeconomic policies have helped maintain economic and financial stability.** We positively note that the economic recovery is projected to strengthen in 2022-23, although there are downside risks. The authorities should remain vigilant against these risks and adjust policy settings as needed.
- 2. We are encouraged that the authorities remain committed to return to the budget deficit ceiling by 2023.** We note that the fiscal policy stance is expected to turn moderately contractionary over 2022-23. We agree that further revenue mobilization through tax reform is needed to support higher development spending to sustain stronger and more inclusive growth. Enhancing the medium-term fiscal framework will also help improve medium-term resilience.
- 3. We concur with staff that BI policies should remain nimble.** We support the current accommodative monetary policy stance to help sustain the economic recovery as long as inflation and inflation expectations remain well-anchored. We are also encouraged to note that the authorities will phase out direct central bank budgetary financing by the end-2022. This would be essential to preserve the BI's operational independence.
- 4. The financial sector remains sound with adequate capital and liquidity.** Nevertheless, we encourage the authorities to continue to monitor financial risks, strengthen the regulatory framework, and address remaining pockets of vulnerabilities. In this regard,

we welcome the plan to push ahead with the financial sector omnibus bill to strengthen the regulatory framework. On bank credit, we share staff's view that the relaxation of loan classification rules could be ended ahead of the target date and see merit to further enhancing the credit bureaus to support credit information provision. *Given that the credit is closing over the projection period, could staff clarify their view that the credit cycle is lagging the recovery?* In addition, we commend the authorities' efforts toward financial deepening and inclusion. We thank staff for their useful insights on the central bank digital currency (CBDC) in the Selected Issues Paper (SIP) and encourage them to provide support to the authorities in this area as needed. Looking ahead, the authorities can greatly benefit from the rapid technological change in the financial sector to strengthen access to credit and other financial services.

**5. We agree that the structural reform strategy needs to be comprehensive to reduce the risk of pandemic scarring and to complement other ongoing reforms.** We therefore welcome the implementation of the Omnibus Law on Job Creation and agree with staff that its impact could be enhanced by concurrent improvements to education, financial inclusion and deepening, digitalization, infrastructure, and governance frameworks. Digitalization will also contribute to support growth, and we note in this regard that financial market deepening reforms will be expedited through programs carried out as part of the Blueprint for Money Market Development 2025.

**6. We commend the Indonesian authorities for proactively tackling climate change issues.** We support the government's approach of gradually reforming energy price subsidies and seeking the right balance between preserving price stability and addressing energy pricing issues. We also agree with staff in their useful SIP that the transition from fixed to flexible pricing should be gradual and clearly communicated to minimize the effects on lower-income households and to address concerns about potential inflation. Nevertheless, we encourage staff to consider the broader range of mitigation measures that are available to complement price reforms and not focus solely in their analysis on energy price reform and carbon taxation. We continue to believe that the recent experiences in many countries show the political and social difficulties of placing an excessive focus on raising energy prices. *Staff comments are welcome.*

With these remarks, we wish the authorities every success in their policy endeavors.