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May 18, 2023

Statement by Mr. Zhang and Mr. Lam on Indonesia
(Preliminary)
Executive Board Meeting
May 22, 2023

We thank staff for the comprehensive reports and Ms. Lim, Mr. Hendrayadi, and Mr. Kurniawan for the helpful Buff statement. The Indonesian authorities continued to implement sound policies while emerging from the pandemic and fostered strong economic recovery. Despite the heavy inflationary pressure globally, the inflation in Indonesia is generally under control. We broadly agree with staff's appraisal and would like to make the following points.

We welcome the authorities' strong fiscal discipline by restoring the pre-pandemic deficit ceiling in 2022 ahead of the previous plan. While the higher global commodities had benefited this early achievement, the authorities nevertheless continued with the revenue mobilization initiatives, in particular the tax reforms. We agree with staff's assessment that the fiscal policy adopted by the authorities is appropriate and should continue to foster a healthy environment for Indonesia's economic development. It would also allow for a gradual decline in public debt level and safeguard debt sustainability.

We take positive note that the BI has tightened its monetary policy to suitably address the inflation pressure. Inflation is expected to return to the Bank Indonesia (BI)'s target range in the second half of the year. With that, the BI should continue to closely monitor the situation and take decisive action if significant inflation pressure reemerges. We agree with staff's recommendation that the exchange rate should play a leading role as a shock absorber, while the use of foreign exchange intervention (FXI) could be appropriate in certain circumstances given the less-than-ideal depth of the FX market. In the medium term, it would be beneficial to carry out market development work to enhance the depth of the FX market such that less FXI would be warranted. *Staff's comments are welcomed.*

We share staff's view that the authorities should gradually unwind any relaxed regulatory measures on the financial sector during the pandemic. In the past few months,

we have seen some turmoil in the banking sector. As the global financial sector gradually normalized from previous distortion during the pandemic caused by ultra-loose monetary policy, it might have led to some problems in the sector that remained unnoticed. The authorities should continue to strengthen the health of the sector through intensive regulation tightening macroprudential policies to prepare for any potential turbulence ahead.

We welcome the authorities' medium-term development plan to diversify the economy and boost the growth potential. The focus in developing downstream activities of raw commodities would be a sensible first step in structural transformation. The structural reform could gradually deepen into other areas of the manufacturing sector as experience and expertise are built up.

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