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February 9, 2021

Statement by Mr. Tanaka, Mr. Chikada, and Mr. Kuretani on Indonesia
(Preliminary)
Executive Board Meeting
February 12, 2021

We thank staff for the comprehensive reports and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their informative statement. We commend that Indonesia has boldly responded to the COVID-19 pandemic crisis with a comprehensive policy package. As a result, the economy is projected to strengthen in 2021 and 2022. Going forward, we take good note of the authorities' five-coordinated policy strategies to support economic recovery and advance structural reforms. As we broadly concur with the thrust of the staff's appraisal, we will limit our comments to the following points:

We welcome that the budget for 2021 implies a moderately expansionary fiscal stance with increase in public investment. In order to support economic recovery and sustain the growth building on Indonesia's favorable demographics, increase in public investment such as public infrastructure and human capital would be crucial. Given that government revenue performance remains below peer countries and insufficient to meet the authorities' development goals, further revenue mobilization is needed once the current crisis abates. In this regard, we encourage the authorities to utilize the Medium-Term Revenue Strategy and take steps to improve tax policy domain. We also commend the authorities' plan to return to the budget deficit ceiling by 2023.

Monetary financing should be a temporary and exceptional measure to address the unprecedented pandemic shocks. As the authorities rightly recognize, while the monetary budget financing is supporting the fiscal response and the economic recovery, buying government bond in the primary market by central bank could also have significant risks. In this regard, we welcome that the Bank Indonesia (BI) has set a framework to manage associated risks. Furthermore, we underscore the importance of deepening the government bond market and fostering the domestic bond investor base, which would be prerequisite for quantitative easing.

While the banking system seems stable, bank asset quality needs to be closely monitored. We welcome that the credit restructuring has helped the adjustment to pandemic-related disruptions. Given proactive loan loss provisioning under the partially relaxed loan classification rules, we concur with staff the Financial Services Authority (OJK) should provide appropriate provisioning. In addition, we note that deteriorating of corporate performance in the first semester in 2020 could possibly intensify credit risk in the banking sector. In this context, while it is encouraging that the authorities recognize the risks have been contained and the banking sector resiliency will continue to be well-maintained, we encourage the authorities to maintain close monitoring of the bank asset quality.

Continued structural reform efforts are needed for the sustained economic recovery and inclusive growth. We welcome that the omnibus bill would possibly help lower obstacles to job-creating investment and boost productivity. Also, we expect the Nusantara Investment Authority to work effectively for high-quality infrastructure investment. Given Indonesia's high exposure to related natural hazard, proactive policy toward climate change is commendable.