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February 10, 2021

**Statement by Ms. Levonian, Mr. O'Brolchain, and Ms. Edwards on Indonesia
(Preliminary)
Executive Board Meeting
February 12, 2021**

We thank staff for their well-written set of papers and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their insightful Buff statement.

Indonesia's sound and prudent macroeconomic policies have helped preserve macroeconomic and financial stability and ensured the economy's good performance prior to the COVID-19 pandemic. We commend the authorities for these policy achievements but note that there remain several structural challenges which must be addressed. **We broadly agree with the thrust of staff's appraisal and offer the following points for emphasis.**

Measures to contain the spread of the pandemic are considered to be appropriate, however the economy is estimated to have contracted by 1.9 percent in 2020. We would encourage further efforts to allocate fully the funding announced in the National Economic Recovery Plan (PEN), targeted to the most affected sectors, and note that emergency policy support should not be withdrawn too soon. A nascent recovery process has started but progress is uncertain given the recent increases in the number of cases in Indonesia and globally, and the slow pace of vaccine rollout. The outlook for the economy is contingent on the latter and the overall length of the pandemic.

We support the steps being taken by the authorities to assess the effectiveness of their COVID-19-related fiscal measures. In addition to increasing fiscal transparency, the findings will help improve the country's preparedness in addressing future shocks and could provide valuable lessons learned for other economies.

Maintaining a balance between measures to strengthen the economic recovery and prudent and sustainable budget management is vital. We agree with the proposed fiscal policy to partially unwind the pandemic spending by reducing discretionary spending while maintaining expenditure on health and social protection and increasing public investment. We share staff's view that the latter will help address outstanding infrastructure needs and

stimulate economic activity and recovery. We appreciate the changes made to revenue policies through the omnibus bill on job creation but note that fiscal consolidation will benefit from an enhanced revenue framework. As such, we encourage the authorities to prioritize the implementation of a medium-term revenue strategy (MTRS) that will simplify the tax system and resolve the issues relating to the narrow tax base, inefficient collection and weak compliance, in a coherent manner.

We would also welcome further analysis on plans to increase investment in infrastructure in Indonesia. In particular, we would be interested in the Nusantara Investment Authority's impact on new infrastructure financing as the initiative is rolled out. We would also welcome insights on how to streamline the infrastructure planning and development process for all investors.

An accommodative monetary policy stance was appropriate to address the challenges of the pandemic. Exchange rate flexibility and the further development of payment systems and money markets are useful. However, these actions must be accompanied by the necessary safeguards. Likewise, although the impact on the bank sector is not expected to be material and the banking system remains well capitalized and highly liquid, the asset quality has deteriorated. We urge the BI to continue to monitor the sector closely, strengthen financial oversight and crisis management and mitigate any actions that could compromise financial stability.

Reforms aimed at enhancing competitiveness are crucial to achieving sustainable and inclusive growth. Transformation of the digital economy and expansion of digital services are essential to drive economic growth and to support activity in the MSME sector. These, along with the measures to enhance tax administration and closing infrastructure gaps, will improve the business climate and encourage private investment, and create employment opportunities especially for women and youth. We welcome recently announced labor market reforms in the omnibus bill on job creation, which may help encourage growth in formal employment moving forward. *Can staff indicate how the pandemic has affected the participation of women in the labor force and what measures if any, have been taken to mitigate negative impacts on women and youth?*

Indonesia is very exposed to natural hazards and has not been left unscathed by the impacts of climate change. In that regard, we welcome the authorities' recognition of the necessity to act to reduce climate impacts and their commitment to pursue the objectives set out in Indonesia's commitments under the Paris Agreement. We note that the Medium-Term Development Plan 2020-2024 signals Indonesia's strong commitment to becoming more climate resilient and as such we support staff's recommendation that a comprehensive transition plan including reforestation incentives, greater support for building renewable energy generation capacity and reducing reliance on coal should be an integral component of the recovery efforts.