GRAY/21/455

February 11, 2021

Statement by Ms. Shortino and Ms. Robitaille on Indonesia
(Preliminary)
Executive Board Meeting 21/16
February 12, 2021

We thank staff for their detailed reports and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their informative Buff. Indonesia's improvements in macroeconomic policies over the past few years enabled the authorities to address the health and economic effects of the pandemic with fiscal and monetary policy easing. **We welcome that the authorities are not only continuing accommodative macroeconomic policies to promote economic recovery but also are pursuing reforms that will lift long-term growth.**

The fiscal policy response has been timely and responsive to evolving shocks. Although there were delays on executing pandemic support measures as of late last year, we welcome the authorities' success in delivering support to vulnerable households and small businesses. We commend the authorities for strengthening governance and transparency by publishing a monthly report on COVID-19-related spending and by planning to undertake an *ex-post* audit. The authorities should stand ready to deploy Indonesia's fiscal space if needed to buffer unexpected shocks. At the same time, we are encouraged that the authorities agree on the need to gradually return to a prudent fiscal stance once recovery is complete, particularly with regards to raising tax revenues which would enable the authorities to avoid sacrificing investment in infrastructure and education. *Could staff provide an estimate of the revenue that would be raised through the relatively modest tax measures identified by the authorities to date?*

Maintaining the operational independence of Bank Indonesia (BI) can enhance its ability to support macroeconomic stability and growth. We agree with staff that there is room for further policy rate cuts if recovery falters. We would have welcomed greater clarity from staff on the benefits versus the risks of further monetary financing of the budget by BI. Staff recommend that the authorities establish a framework to manage risks associated with bond purchases. In our view, this framework should reinforce BI's ability to achieve its objectives, including price stability. We support the authorities' intention to protect the operational independence of BI in an upcoming reform of the financial sector regulatory regime.

We welcome that the exchange rate has been allowed to function as a shock absorber to a greater extent than in other recent episodes of financial stress, even though concerns about the effects of exchange rate depreciation continue to constrain monetary policy. *In light of staff's discussions on corporate sector exposure to exchange rate risk, do the authorities plan to tighten prudential regulation of corporate FX borrowing? Were they to do so, what measures would staff recommend?* We urge continued vigilance on other risks to financial stability. In that vein, we strongly support staff's recommendation to ensure that banks continue to properly classify and monitor loans. Financial sector strains from the pandemic have highlighted the need to upgrade crisis management and resolution frameworks in line with prior Fund recommendations.

We urge the authorities to maintain their strong reform momentum with a focus on labor market flexibility, openness to trade and direct investment, and regulatory simplification. Although the omnibus reform law that was passed last year furthers these goals, the implementing regulations have not yet been enacted. We echo staff's recommendation on strong governance standards for the nascent Nusantara Investment Authority (NIA), and we would encourage staff to continue to engage the authorities on ways to minimize risks and maximize benefits. We appreciate staff's discussion of the climate change mitigation and adaptation measures Indonesia could pursue, given Indonesia's significant exposure to climate-related risks.