

SU/21/23

February 16, 2021

**The Acting Chair's Summing Up
Indonesia—2020 Article IV Consultation
Executive Board Meeting 21/16
February 12, 2021**

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' containment measures and supportive macroeconomic policies, which have been instrumental in cushioning the economic impact of the pandemic. They noted that Indonesia's strong fundamentals and prudent macroeconomic policy track record have contributed to its economy's resilience.

Directors noted that supportive monetary and fiscal policies along with the envisaged increase in public investment should help foster economic recovery. They observed that risks to the outlook are tilted to the downside, mainly due to domestic and global uncertainties associated with the pandemic. Early completion of a widespread vaccination program, however, is an upside risk, and Directors were encouraged by the recent increase in the funding for the health policy response to the pandemic. They observed that Indonesia has the macroeconomic policy space to provide additional support if downside risks materialize. They welcomed the measures to foster transparency and ensure the effectiveness of pandemic-related spending.

Directors commended the authorities' commitment to return to the statutory budget deficit ceiling by 2023, noting the importance of unwinding the exceptional measures in a balanced manner. They stressed the need to underpin the fiscal rules with a medium-term fiscal strategy that includes revenue measures. Higher government revenues would help create space to boost development spending and support sustainable and inclusive growth. Capacity building support will be crucial.

Directors agreed that maintaining an accommodative monetary policy stance, contingent on the inflation outlook, is appropriate. They noted the authorities' strategy of pursuing monetary accommodation through a combination of lower policy interest rates and government bond purchases by Bank Indonesia in the current exceptional circumstances. To balance the benefits and risks of temporary monetary budget financing, they welcomed Bank Indonesia's plan to conduct bond purchases in 2021 only as a last resort under the market mechanism. They suggested that clarifying the last-resort criteria would help enhance the monetary policy framework and safeguard Bank Indonesia's operational independence. Directors also noted the role of exchange rate flexibility in absorbing shocks.

Directors noted that the banking system remains stable, but continued monitoring on bank asset quality is warranted. They emphasized that proactive loan loss provisioning will be critical for banks' ability to weather any deterioration in asset quality. They noted that additional targeted policy steps to revive credit might be necessary if bank lending to the private sector does not rebound. Directors also highlighted the importance to continue upgrading crisis management and resolution frameworks.

Directors welcomed the authorities' push for structural reforms with the omnibus bill on job creation, as well as their plans to close infrastructure gaps. They encouraged the authorities to sustain the reform momentum, with a focus on developing a medium-term government revenue strategy, financial deepening and digitalization, and fostering a greener economy and tackling challenges related to climate change.

It is expected that the next Article IV consultation with Indonesia will be held on the standard 12-month cycle.