**Executive Board Minutes 21/16-1**

February 12, 2021–10:30 a.m.

**Indonesia—2020 Article IV Consultation**

Documents: SM/21/11, and Cor. 1, and Sup. 1; SM/21/12

Staff: Helbling, APD; Ilyina, SPR

Length: 1 hour, 23 minutes

ISSUED: September 21, 2022
APPROVAL: September 28, 2022

CEDA OGADA
Secretary

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[1] Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary "gray" or "buff" statements by Executive Directors and staff's responses to Directors' technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair's "sense of the meeting" or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF's Transparency Policy and Open Archives Policy.

## THE ACTING CHAIR'S SUMMING UP

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.

## EXECUTIVE BOARD ATTENDANCE[2]

A. Sayeh, Acting Chair

| Executive Directors | Alternate Executive Directors |
|---|---|
| I. Mannathoko (AE) | |
| | F. Sylla (AF) |
| | B. Lischinsky (AG), Temporary |
| C. Huh (AP) | |
| | B. Saraiva (BR) |
| | Z. Zhang (CC) |
| | A. Guerra (CE) |
| | F. O'Brolchain (CO) |
| | H. Azal (EC) |
| A. Buisse (FF) | |
| | K. Merk (GR) |
| S. Bhalla (IN) | |
| | M. Massourakis (IT) |
| T. Tanaka (JA) | |
| H. Hosseini (MD) | |
| | A. Alhosani (MI) |
| | A. De Lannoy (NE) |
| M. Poso (NO) | |
| A. Mozhin (RU) | |
| M. Mouminah (SA) | |
| | F. Mochtar (ST) |
| | M. Peter (SZ) |
| S. Riach (UK) | |
| | E. Shortino (US), Temporary |

G. Bauche, Acting Secretary
J. Morco, Summing Up Officer
D. Alcantara, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

**Also Present**
Asia and Pacific Department: O. Brekk, E. Cerutti, K. Harada, T. Helbling, A. Isnawangsih, P. Khera, M. Kim, T. Kinda, R. Koepke, A. Mourmouras, J. Walsh. Communications Department: K. Utsunomiya. European Department: M. Patnam. Fiscal Affairs Department:

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[2] For countries in each constituency, please see the Constituency Codes in the annex.

W. Gbohoui. Legal Department: N. Stetsenko. Monetary and Capital Markets Department: U. Das, A. Haron, H. Wang. Strategy, Policy, and Review Department: F. Arizala Escamilla, A. Ilyina, V. Klyuev. World Bank Group: D. Djoldosheva. Executive Director: A. Andrianarivelo (AF), L. Levonian (CO), A. Mahasandana (ST), M. Mahmoud (MI), P. Moreno (CE), R. von Kleist (GR). Alternate Executive Director: B. Alhomaly (SA), K. Chikada (JA), M. El Qorchi (MD), S. Geadah (MI), L. Herrera (AG), Y. Indraratna (IN), C. Just (EC), W. Nakunyada (AE), R. N'Sonde (AF), O. Odonye (AE), L. Palei (RU), P. Rozan (FF). Senior Advisors to Executive Directors: W. Abdelati (MI), H. Andrianometiana (AF), K. Badsi (MD), M. Choueiri (MI), B. Jappah (AE), L. Johnson (AP), C. Sassanpour (MD), M. Sidi Bouna (AF), M. Zhunusbekova (SZ). Advisors to Executive Directors: F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), R. Edwards (CO), D. Fadhel (MI), J. Hanson (NE), A. Korinthios (IT), T. Krahnke (GR), K. Kuretani (JA), M. Merhi (MI), R. Moral Betere (CE), B. Piasecki (SZ), B. Slettvag (NO), D. Susiandri (ST), A. Tola (SZ), A. Zaborovskiy (EC), F. Lopez (CE), A. Clark (UK), D. de Waziers (FF).

## DISCUSSION RECORD[3]

*The Acting Chair (Ms. Sayeh):*

The COVID-19 pandemic has severely affected Indonesia's economy after many years of strong growth and prudent policymaking. As in other countries, the loss of lives and socio-economic hardship inflicted by the pandemic has been painful and tragic. The Indonesian authorities responded with containment measures and a comprehensive economic policy package. The latter was instrumental in cushioning the economic impact of the pandemic. A decisive policy response also helped stabilize financial markets and supported a rebound in capital flows, in effect preventing a more severe economic downturn. Against this backdrop, the Article IV discussions focused on policies to ensure a robust recovery that would mitigate the long-term scarring effects of the pandemic.

In particular, staff discussed with the authorities the importance of maintaining appropriate macroeconomic policy support in the near term and the need for a medium-term government revenue strategy to underpin fiscal rules and finance development. Staff also engaged the authorities on the structural reform agenda to deepen financial markets, foster digitalization, and transition to a greener economy.

*Mr. Mochtar:*

Let me take this opportunity to highlight some issues raised by Directors in their gray statements, as well as the updates on new developments.

To begin with, I am encouraged by the Directors' acknowledgement of the swift and bold policy response undertaken by the Indonesian authorities, which have successfully cushioned the adverse impact of the pandemic. Looking ahead, economic recovery is expected to strengthen in 2021, underpinned by global recovery, accelerated vaccine rollout, and continued strong policy stimulus. We share the Directors' views that vaccine rollout will be the game changer for the outlook, not only for Indonesia, but also for the global economy. In this vein, my authorities have taken strong reforms to ensure successful vaccine deployment. They have secured a large amount of vaccine from various sources, and it is expected to reach 460 million doses in March 2022 to achieve herd immunity in the community.

[3] Edited for clarity.

While the progress was deemed slow in the initial phase, it will be upgraded in March 2021 from what is indicated in the vaccination plan. As of February 8, already 32 percent of health workers have been vaccinated and the vaccination of this group will be completed by April. As part of the strategy, subsequently the vaccine will be distributed to the region with a high population density and large contribution of GDP. The vaccination program is projected to cost about US$5.2 billion and be financed through the 2021 budget and the unspent 2020 budget. Nevertheless, my authorities remain alert due to high uncertainty and stand ready to take necessary policy action given their available policy space.

Allow me to further elaborate on my authorities' policy priorities that were also questions from Directors in their gray statements. First, on the fiscal policy, while fiscal rule has been temporarily relaxed, my authorities are committed to bring the budget deficit back below 3 percent of GDP in 2023. We would like to assure Directors that my authorities are determined to continue strengthening medium-term fiscal strategies, including revenue enhancement as set out in their 2020-2024 strategic plan.

Several strategies are adopted to improve revenue mobilization, such as implementing a new core tax system, tax intensification including by taxing the digital economy players, as well as tax extensification. The latter will be done by broadening tax base for personal and SME taxpayers as well as the VAT. In addition, several bills to support tax reform are also in the pipeline, such as bill on income tax, VAT, property tax, and duty.

On the monetary policy, we would like to reassure Directors that the purchase of government bonds in the primary market by the Bank of Indonesia (BI) is conducted on a temporary basis until 2021. This will be implemented in a prudent manner consistent with good governance following four prudent principles, as stated in our buff statement, including the purchase of the last resort.

There were many questions on the last-resort basis. Here, we would like to reiterate that my authorities have set the maximum limit amount of the government bond that could be purchased by the central bank. My authorities firmly reiterate their commitment that they would not undermine the ultimate objective in maintaining price stability. Thereby we continuously monitor and evaluate its impact on inflation. This measure is complemented by a clear communication to the public as part of the transparency in governance. So far, it is well understood by the market and remains supportive through recent macroeconomic stability.

Third, on the financial sectors, while financial stability remains well maintained, my authorities have come to the same views with Directors on the need to continue closely monitoring the banking sector. In this period, the authorities have requested the banks to conduct continuous assessment of the debtor condition to ensure their viability. Banks are also required to make provisions for restructured debtors that are unlikely to be viable in the future. Coordination between macroprudential and microprudential supervision is also strengthened through establishment of an integrated banking supervision forum where they regularly conduct a meeting to discuss the latest developments on the banking sector. Moreover, credit guarantee for MSMEs and corporates will be continued in 2021 as part of the authorities' effort to boost the lending.

Lastly, on structural reform, my authorities are also steadfast in implementing a number of initiatives to sustain its momentum, placing greater emphasis on regulatory reform, digitalization, and the green economy.

*The staff representative from the Asia and Pacific Department (Mr. Helbling):*

In my statement I would like to inform Board about recent data releases. Let me first note, though, that we have issued corrections late yesterday afternoon, which I hope the Board has received. Overall, the data releases since we concluded the consultation discussions have been consistent with the broad picture painted in the staff report.

I will focus on the most recent National Accounts release, which was published on February 5. Real GDP came in a bit worse than expected. It declined by -2.2 percent on a year-on-year basis in the fourth quarter compared to our forecast of -1.7 percent. Still on a comparable basis, the recovery has continued. Growth in the third quarter was -3.5 percent. For annual growth, the release implies that real GDP declined by 2.1 percent in 2020, just below our forecast of -1.9 percent. The implications of the release for our forecast are relatively minor. The carryover or base effects will be somewhat smaller, but based on our own seasonal adjustment of the quarterly data, we have a smaller base effect of about 0.2 percent so less than a quarter of a percentage point. I should note that normal GDP was also a bit weaker, and so in particular the fiscal ratios are a bit higher, but again by relatively small amounts.

Finally, in terms of policies, as Mr. Mochtar mentioned, there have been various policy announcements. I would just highlight two announcements related to the PEN, the national economic recovery program. First, for the year as a whole, execution was 84.3 percent. This is roughly comparable to budget execution on average, but in particular it compares to an execution of 62 percent by November, we mentioned in the staff report. So, the conclusion that acceleration in the execution has continued was confirmed.

Finally, in a budget-neutral way, the allocation to the national economic recovery program for 2021 was stocked up from 370 trillion rupiah to about 620 trillion rupiah for 2021. That is an increase from 2.2 to 3.9 percent of GDP. We do not yet have the details by sub-programs, but part of it will be spent on health, including vaccination, and part of it on business support. Both are, of course, priority areas and would support the recovery. The Ministry of Finance has confirmed that this allocation will be budget neutral. The deficit target laid out in the staff report will remain.

*Mr. Sylla:*

We commend the authorities for their decisiveness on their policies to address the pandemic and its socio-economic impact. That said, the country's economic outlook is still uncertain, and the risks are elevated. We, therefore, encourage the authorities to remain vigilant and to continue to implement supportive policies. We have issued a gray statement jointly with Mr. Chodos, Mr. Mohieldin, and Mr. Mouminah and would like to make the following comments for emphasis.

While the authorities near-term fiscal expansion is key to sustaining the recovery, efforts to consolidate the budget should be gradual over the medium-term. The expansionary budget for 2021 is appropriate in our view; however, as the recovery strengthens over the medium term, the authorities should gradually adopt more fiscal consolidation measures. We take note of their commitment to reducing the fiscal deficit to a level that is consistent with the fiscal rule by 2023. In connection with these points, could staff give us some indications on the authorities' plan to create a new sovereign fund to finance infrastructure and what could be its impact on the achievement of the objective of returning to the fiscal rule?

On monetary policy, we are of the view that the current accommodative stance is adequate and should be maintained until the recovery firmly takes hold. While we take note of the monetary authorities' commitment to undertaking government bond purchases temporarily as a last resort given potential risks, we encourage them to further strengthen the safeguards of the competitive easing strategy.

Finally, we praise the authorities for their determined effort to pursue their structural reform agenda despite the pandemic. Building on the results already obtained in this front and given the country demographic dynamic, as well as the initiatives under way to promote job creation, we urge the authorities to continue to make progress on fostering financial deepening and digitalization as well as promoting a greener economy.

*Mr. Tanaka:*

We issued a gray statement and would like to offer an additional comment and a few remarks emphasis.

First, on fiscal policy, we commend Indonesia's moderately expansionary fiscal stance with increase in public investment in 2021. Given the relatively low government revenue performance, we encourage the authorities to implement further revenue mobilization by utilizing medium-term revenue strategy. We also welcome Indonesia's commitment to plan to return to the budget deficit ceiling by 2023.

Second, on monetary policy, as the authorities rightly recognized, monetary financing should be a temporary and exceptional measure. In this regard, we welcome the Bank Indonesia's framework to manage associated risks.

Third, on financial sector policy, given proactive loan loss provisioning under the partially relaxed loan classification rule, bank asset quality should be closely monitored. In this context, we concur with staff that the financial service authority should ensure appropriate provisioning. We would also underscore the importance of deepening the governmental bond market and fostering domestic bond investor base, which would be prerequisite for resilience to external shocks and quantitative easing in relation to monetary policy.

Fourthly, on structural reforms, we welcome the authorities' structural reform efforts for the sustained economic recovery and inclusive growth and their proactive policy towards climate change as well. In this context, we welcome the selected issues paper (SIP) focusing on climate change, especially on Indonesian challenge and risks. Transition from coal-based power generation to decarbonization would have significant impact on economic activities and be a common challenge for many other countries. We underscore the importance of sharing this type of bilateral surveillance findings across country teams and departments and to further enhance the quality of analysis and policy advice on climate change. So, we really appreciate that.

*Mr. Saraiva:*

We issued a gray statement, so I will just emphasize a couple of points.

First, let me commend the Indonesian authorities for their bold and comprehensive response to the COVID-19 pandemic. We welcome the authorities' commitment to supporting economic recovery and advancing structural reforms, which are going to be critical given the fact that the outlook continues to be subject to uncertainty that is larger than usual due both to the evolution of the pandemic but also to the fact that the vaccination rollout, an issue that was highlighted by Mr. Mochtar in his opening remarks, is still incipient. We encourage the authorities to remain vigilant and act as needed, and we recognize that the authorities have taken some measures to mitigate some of those risks, as outlined in the statement by Ms. Mahasandana, Mr. Mochtar and Ms. Susiandri.

I think here the issue is how to use the existing policy space to continue to support the recovery as it picks up steam but also, as highlighted by the speakers that preceded me, start medium-term consolidation as soon as conditions allow. Indonesia is well positioned to pursue this strategy, which is overall a very sound way to cope with a situation that many countries are facing at this time. The Bank of Indonesia as well is acting in a very appropriate way. The support that they gave to the economy allowed for the continuous orderly functioning of the financial market in a situation where capital flows were very volatile. The exchange rate played a vital role as a shock absorber and should continue to play this role, and as Mr. Tanaka has just highlighted, we welcome the authorities' efforts to deepen the bond market and widen the domestic investor base. This will be an important factor to stabilize the exchange rate and enhance the resilience of the economy to exogenous shocks. Of course, the policy stance should remain accommodative until inflation shows signs that it is picking up, but so far there seems to be a lot of space for Bank of Indonesia to continue to pursue the current stance.

Finally, the structural efforts will continue to be crucial to support economic recovery, and here I would like to highlight the omnibus bill on job creation, which is going to be important to ease labor market restrictions and improve investment climate but also the adoption of the medium-term revenue strategy that is going to help close the infrastructure gap and aid also public investment, and finally the issues to improve access of digital technology, which has perhaps a large potential in terms of future development in the economy.

*Mr. Hosseini:*

We have issued a comprehensive gray statement but would like to make a few brief comments for added emphasis.

First, thanks to bold and coordinated policy response, Indonesia successfully managed to mitigate the fallout from the pandemic, save lives and livelihoods, and preserve macrofinancial and external stability. Maintaining policy support and flexibility in the near term is important in order not to jeopardize the nascent recovery.

Second, fiscal policy played a major role in dampening the economic impact of the crisis and kick-starting the recovery. There is still sufficient fiscal space left to tap into should downside risks materialize. To address the revenue shortfall, we encourage the authorities to safely embark on designing and implementing the medium-term revenue strategy in line with the staff recommendations. Bank of Indonesia acted prudently during the crisis, and we support the monetary policy stance and welcome the authorities' commitment to greater exchange rate flexibility.

Finally, as structural reforms to boost productivity and job creation remain key, we commend the authorities for their reform agenda and their resolute efforts to work towards a more inclusive and greener growth.

*Mr. Buisse:*

We agree with the key messages and issued a gray statement, so I will focus on only a few points for emphasis.

We strongly welcome the authorities' comprehensive and coordinated policy response to the COVID-19 pandemic that helped mitigating the fallout and their vigilance to undertake necessary actions if the situation were to deteriorate given the available fiscal space.

We also welcome that the authorities remain in the meantime committed to advancing structural reforms to mitigate the scarring effects and lift the growth potential. Budget execution capacity should continue to be improved to promote further standing on development, and we agree with staff that a detailed medium-term revenue strategy will be a crucial step to strengthen domestic revenue mobilization to support this agenda. We also echo staff's recommendation to set a clear transparency and governance standard for the implementation of the omnibus bill.

We agree with Ms. Riach in her gray statement that it will be important to maintain clear boundaries between fiscal and monetary policy. We agree that the policy mix of the Bank of Indonesia is appropriate under the current exceptional circumstances but also should be guided by well-defined last resort criteria. Clarifying the exceptional and temporary nature of the monetary budget financing operation with explicit objectives and clear communication could help safeguard monetary policy credibility. In addition, we strongly agree with staff that the Bank of Indonesia's operational independence should be preserved.

Finally, we welcome staff's coverage on climate issues, and we welcome the authorities' proactive efforts to tackle climate change. We support staff's call for further reforms through a comprehensive transition plan. Given Indonesia's high vulnerability and important role in global climate action, it is important to increase the resilience of the economy and speed up the transition to a low carbon economy. In particular, we encourage the authorities to boost further green investment, set stronger carbon emission targets ahead of COP26, and quickly implement the 2021 energy subsidy reform.

*Ms. Shortino:*

We issued a gray, statement so I just wanted to add a couple of points for emphasis.

First, on the fiscal side, we very much welcome that Indonesia undertook a robust fiscal response. Like others, we think, and I actually think Mr. Saraiva said it quite well when he said the authorities need to be prepared to use the additional fiscal space should the crisis worsen or other downside risks materialize. At the same time, it is also important to identify concrete revenue measures ideally as part of a comprehensive reform package to help place the fiscal position on a sustainable path over the medium-term.

We are encouraged by Mr. Mochtar's opening remarks on this front, including the list of several bills that are in the pipeline. I would ask staff, I noticed in the staff technical responses that staff have been providing capacity development on a medium-term revenue strategy, which is quite good, and I just wonder if staff could elaborate on what are the constraints to the authorities actually moving forward with such a strategy, or perhaps some of these bills in the pipeline are part of that strategy?

Second, on the Bank of Indonesia's direct purchases of government bonds, we very much agree that the response to the global financial turmoil by the Bank of Indonesia was quite impressive. The purchase of government bonds helped address fiscal needs and allay concerns about market functioning at a very difficult time. Moving forward, however, it will be critical to put into place a framework, as staff recommend, to clarify that future bond purchases would be made on a last-resort basis. We would actually be interested to hear from staff on whether other countries have instituted such a framework, and whether there are best practices associated with such a mechanism, and in particular whether there are strategies to help ensure that the BI's price stability objective is not compromised and BI's independence is preserved as part of this framework.

In our view, it will also be important to take steps to strengthen domestic bond markets so as to preempt the need to use such a tool and to stabilize the exchange rate. I welcome staff's coverage of climate change in the report and agree with Mr. Buisse's remarks on that front.

*Mr. Lischinsky:*

We have issued a joint gray statement, so I will make some points for emphasis.

We welcome the authorities' comprehensive and coordinated policy response to the COVID-19 pandemic to save lives and livelihoods. This response also helped to preserve macrofinancial and external stability through the downturn and a period of high global market uncertainty. The Indonesian authorities, based on the omnibus bill, will promote investment and create jobs to help mitigate the scarring effects of the pandemic buttressed on currently appropriate accommodative, monetary, and fiscal policies to help the recovery.

Prudent policies adopted in the past and strong policy frameworks provided Indonesia adequate fiscal space. In this regard, we welcome the authorities' intention to return to the budget deficit ceiling by 2023, which confirms the commitment to the fiscal rules. However, after the 2008-2009 financial crisis, we saw that those countries which prematurely moved from stimulus to fiscal consolidation entered on to a decreasing or very slow growth path. Pressures for premature fiscal consolidation in emerging markets and developing countries, including LICs, should be reduced, and IMF staff should be clear on its advice on when to start fiscal consolidation, which must be discussed with the authorities and tailored to the idiosyncrasies and needs of each country. Fiscal consolidation in the medium-term could probably start at a time when the real GDP level reaches again the 2019 GDP level or, even better, when the real GDP per capita averages reaches again the 2019 GDP per capita average.

In this regard, we have seen these differences in staff views between the Asia and Pacific Department update on Wednesday and the Western Hemisphere Department update on Monday this week in relation to fiscal consolidation and assessment and how to deal with them in the future. We are not against consolidation, and assessment is needed, but the Fund staff should be very clear in its advice on when to start fiscal consolidation, because in this stage, recovery and growth are first priorities until the pandemic is over, and fiscal consolidation should wait until recovery and growth are well established to not repeat the mistakes made after the 2008-2009 crisis.

*Mr. Poso:*

We have issued a gray statement, but I would like to add three points for emphasis. My first point is on the direct budget financing by the Bank of Indonesia. We know from recent history that extraordinary central bank measures introduced in a time of crisis can be hard to reverse. We agree that the principles of the market mechanism informatively laid out in the buff statement help contain the risks related to monetary budget financing. Going forward, however, and like Ms. Shortino, we are concerned that an extended use of the market mechanism and the integration of the approach into the monetary policy framework, as staff suggest, could risk formalizing monetary budget financing in a way that would lower the threshold for future purchases. Can staff comment on what safeguards are in place to ensure that bond purchases in the primary market will be conducted only temporarily?

Second, we welcome the steps taken to promote investment in infrastructure. Securing sufficient financing would rely on successfully boosting fiscal revenues, and once economic conditions allow, shifting fiscal expenditures from spending towards investment. The ramp-up in infrastructure spending should also be accompanied by a long-term strategy guiding project identification and prioritization. Similar to Ms. Levonian in her gray statement, we would welcome staff's view on the planning and implementation processes for its infrastructure investment and how they can be improved.

Lastly, we welcome the wide range of policy incentives to improve the business climate in the omnibus bill for job creation. We agree with staff that high-quality and transparency standards will be critical for the effectiveness of the reforms and would welcome staff's view on the fight against corruption in Indonesia.

*Mr. Massourakis:*

Since we have issued a comprehensive gray statement, I will be brief. I want to make a few additional comments.

The Indonesian economy is well positioned for recovery. To this effect, the authorities should step up their efforts against longstanding vulnerabilities, which act as a brake on economic development, such as inadequate infrastructure, the poverty level, limited tax base, et cetera. In this respect, I would be interested to hear more details on infrastructure investment plans in Indonesia, especially after the recent establishment of the Nusantara Investment Authority.

The tax reform initiated in 2017 remains incomplete. Thus, the authorities should make greater effort in this regard. Further improvements are also required in education, health, and social safety nets, I am happy to read in the buff statement that on the expenditure side, government spending will be prioritized to facilitate the resilient recovery with a focus on health, education, infrastructure, food security, social safety nets, tourism, and other areas.

Finally, the signing of the regional comprehensive economic partnership, which is the largest regional Free Trade Agreement outside the WTO after almost a decade of negotiations, is great news for us. We look forward to the benefits of the agreement accruing to Indonesia. I will stop here.

*Mr. Azal:*

We commend the Indonesian authorities for their well-coordinated policy response, and we welcome the authorities' ambitious plans on the vaccination front. The authorities announced that the vaccine will be free for everyone, and the cost of the program is estimated more than US$5 billion. Could staff clarify which part of this program will be included in this year's budget?

We welcome that the national economic recovery program prioritized health and social-related spending in a medium-term while the recovery takes off, and growth-friendly fiscal consolidation should support the expansion of the social safety net and investment in human capital. We positively note the broad agreement between staff and the authorities about the assessment and recommendations. As the uncertainty remains extremely high, contingency planning and vigilance are rightly emphasized in the property.

In terms of risks, health of the non-financial sector's balance sheets, FX positions in the real and financial sectors, as well as contingent liabilities from large stimulus program, are the most prominent ones and warrant close monitoring. We positively note that the authorities have stepped up their risk mitigation efforts in these areas, and the Fund provides technical assistance to help better manage fiscal risks. Implementing the FSAP recommendations on crisis management and resolution frameworks would complement these efforts.

Finally, we welcome the authorities' ambitious structural reform agenda and wish them every success in the reform implementation and fight against the pandemic.

*Mr. Merk:*

We issued a comprehensive gray statement which allows me to be brief.

We commend the Indonesian authorities for their decisive policy response to the crisis and prudent macroeconomic policies in previous years. A medium-term fiscal strategy, including reforms to increase government revenues, would be helpful to anchor future fiscal policy. With a view to structural reforms, we encourage the authorities to pass the omnibus bill and welcome the related efforts to create jobs and ease labor market restrictions.

*Mr. Huh:*

As many previous speakers already mentioned the monetary budget financing and the midterm fiscal consolidation issues, I will add just two points.

First, ongoing technical assistance. Looking ahead, the Indonesian authorities will face a number of significant policy challenges around the designing and implementing a midterm fiscal and revenue strategy, increasing structural reform efforts to deal with post-pandemic recovery, as well as ongoing efforts to deepen financial markets. As such, we encourage the Fund to provide ongoing TA on related areas.

Finally, the investment for the post-COVID era. It might be not so easy to secure enough investment for successful digital and green transformation and infrastructure while rationalizing the macroeconomic policy framework. Considering the importance of strong growth potential for the future, business friendly reforms for productivity enhancement with efficient mobilization of more foreign capital will be vital to overcome the middle-income track.

*Mr. Zhang:*

We commend the authorities' prompt and bold policy responses, which have successfully mitigated the fallout. We have issued a gray statement, and I would like to limit my comments to the following three points.

First, we welcome the authorities' commitment to return to the 3 percent of GDP budget deficit rule by 2023 and encourage the authorities to improve spending efficiency and revenue mobility and concur with staff that a medium-term fiscal strategy backed by revenue measures would help anchor expectations and reduce risks to policy credibility. We commend the authorities' three-pronged approach to bolster transparency and safeguard public accountability to ensure the effectiveness of COVID-19-related fiscal measures.

Second, we support the accommodative monetary policy stance to sustain the recovery. As for monetary financing, it is worth noting that since the global financial crisis, de facto monetary financing for fiscal spending has not been a rare phenomenon, as witnessed by the fact that government bonds are now in the major central banks. In this regard, we commend the BI for reiterating that buying government bonds in the primary market will be temporary, and the authorities are very cautious in conducting such measures. We hope it will not affect the central bank's independence and encourage the authorities to well manage associated risks.

Third, it is inevitable that the asset qualities of both corporate sector and the banking sector were to deteriorate amid the unprecedented challenges from the pandemic. We take positive note that the banking system has remained stable and resilient. We believe that the authorities' efforts to develop the retail bond market to widen domestic base investors will contribute positively to exchange rate stabilization, while several reform initiatives to attract long-term investment, particularly through FDI, will eventually improve capital flows, as well as enhance external sector resilience.

*Mr. Mozhin:*

We have issued a written statement, so I can be very brief.

I think what we have learned from the staff report is that Indonesia, so far at least, has been a success story of very forceful policy response to the crisis like no other. I believe that the main factor behind this success story is a very strong fiscal position and the availability of quite significant fiscal space, and that is what is making Indonesia different from quite a few other emerging market economies and advanced economies. I think this Executive Board should be very proud of the Indonesian success story because both the Minister of Finance and Central Bank Governor of Indonesia are former colleagues, former members of this Executive Board, and, again, I think this is why I feel proud of their achievements.

Now, on the monetary financing of the fiscal deficit, it is, of course, a matter of concern. It should be seen as the last resort, as was underlined by several previous speakers. However, many countries have resorted to monetary financing of fiscal deficits, including practically all advanced economies de facto resorting to direct monetary financing of the fiscal deficit, the point which has just been made by Mr. Zhang. Going forward, I certainly agree that this should be seen as the last resort and discontinued at the first opportunity.

Finally, I would want to raise a point which is about something which may be not urgent but is forward-looking, and this is about the Indonesian currency. The rupiah is a very light currency. I think the exchange rate is something like 15,000, 20,000 rupiah for the dollar, which must be making even the counting very complicated, so my question is whether there are any plans in Indonesia to redenominate the currency because it is way too light.

*Mr. Guerra:*

Reacting to other Directors and staff answers, we want to highlight the following two points.

First, on monetary policy, given the high liquidity in the domestic financial system, we also agree with the BI that additional cuts or liquidity provision to banks can only have limited effects in boosting demand, so in a downside scenario, fiscal policy should have a larger role to support demand. Also, I join other Directors regarding the position that the central bank should be wary, should be careful going forward, in the bond buying activities. This especially for an emerging market economy like Indonesia.

Certainly, we also reaffirm our position that possible changes to the central bank law should not limit the operational independence of the central banks and that this measure must be clearly specified as temporary. In this regard, we welcome the remarks by Mr. Mochtar regarding that clarity limits to the public bond banks will be very clearly established. Finally, we commend the authorities' commitment to exchange rate flexibility and efforts to further development of the payment system.

My second point is regarding or related to one of our questions where we ask about the challenges that Indonesia is facing in order to mitigate a more permanent effect on output. A similar problem that most countries are facing because of the pandemic, how to avoid persistent output losses in level terms. In this regard, we believe that measures facilitating reallocation could lower the scarring, but also and more importantly, as mentioned already by Mr. Massourakis and Mr. Zhang, it would be very important in advancing in trade facilitating measures and deepening the structural reforms as a very fundamental part of the strategy. As presented by staff responses, Indonesia is setting an example by implementing the Regional Comprehensive Economic Partnership (RCEP), which together with other ongoing and planned reforms, including the omnibus bill, will have the potential to promote export competitiveness and contribute to attracting more foreign direct investment to the countries. This should, if well and timely implemented, avoid a sharp reduction of the capital stock and a protracted scarring and hysteresis effects.

*Mr. Mouminah:*

Like other Directors, we believe the authorities' efforts and swift policy response to the pandemic have played an important role in protecting the most vulnerable and preserving the macrofinancial and external stability. Also, the performance of the Indonesian economy, which is projected to strengthen on 2021 and 2022; but two things are going to play an extremely important role: the vaccine strategy and the midterm fiscal strategy as well. I look forward to the staff answers to Ms. Shortino's question in that regard specifically.

On the financial sector and the soundness of the banking sector, we are reassured by the indication of Ms. Mahasandana in her buff statement that the financial policy will remain accommodative to boost growth, and Bank of Indonesia will assess the possibility further as to the number of macroprudential instruments. Mr. Saraiva had actually raised most of the points that I wanted to make on this regard, so I just agree with his points. At this point, I would like to underscore the importance of the Fund's capacity development support in this area.

Third, we believe the authorities' commitment to advance structural reforms would have an impact and support the spending on development and sustain economic recovery with inclusive growth. In this connection, we welcome the authorities' efforts to financial deepening and digitalization. Furthermore, like Mr. Tanaka, Mr. Zhang, Mr. Saraiva, we underscore the importance of deepening the bond market and diversifying the investor base. Such reforms would contribute positively to the economy.

*Mr. Alhosani:*

We issued a joint statement with three other chairs and would like to emphasize a couple of points today.

First, I would like to commend the Indonesian authorities for their bold, comprehensive, and coordinated policy response to the COVID-19 pandemic. Their prudent policies adopted in past years and strong policy frameworks allow for an adequate policy space to respond to the pandemic, and it has done it judiciously.

On the fiscal front, we support the authorities' intention to continue to adopt a countercyclical fiscal policy in 2021 to secure their recovery. This stance would be followed by a gradual reduction of the budget deficit to ensure fiscal sustainability. We also encourage the authorities to pursue their revenue mobilization efforts as well as implementation of the ongoing tax administration initiatives to protect low-income groups and reduce poverty and income inequality.

On the monetary front, Bank Indonesia has appropriately pursued an accommodative policy utilizing all available policy instruments given the exceptional circumstances. This included monetary budget financing as a backstop for fiscal policy. We take positive note of Bank Indonesia's prudent approach to buying government bonds in the primary market as the measure was designed to be temporary, consistent with good governance principles, and mindful of the impact on macroeconomic stability.

*Ms. Mannathoko:*

We wanted to commend the Indonesian authorities on the strong fiscal position going into 2020, which really helped them weather the crisis, but we just want to really encourage a strong focus at this time on effective rollout of the vaccine.

On the policy areas, we would just like to associate ourselves with Ms. Riach, and I think Ms. Shortino, who mentioned this as well and others, regarding the importance of continuing fiscal support for the recovery in the face of uncertainty and the sort of risk profile we focused on in our gray statement. We also feel that some policies may need to be recalibrated to ensure a more sustainable and inclusive recovery. At the same time, a well-articulated medium-term strategy we feel should be defined now. We also just maybe here want to commend the passage, despite some resistance on the ground, of the omnibus law, which aims to address some of the longstanding structural issues. Like Mr. Merk, we wanted to encourage the authorities for timely implementation.

We would like to emphasize like others the importance of a credible medium-term revenue strategy, which is really needed to improve Indonesia's tax-to-GDP ratio. This will be crucial also to help provide fiscal space needed for increasing spending on priority areas. We cited in our gray statement various vulnerable populations, including women, so we wanted to encourage the authorities here.

For the central bank, like others, we also wanted to encourage ongoing work to strengthen domestic bond markets; but also at the same time, regarding the central bank's bond purchases to help finance the government, we just want to really urge a continued focus on safeguarding the central bank's independence and to try to treat the purchases as temporary.

For the financial sector, we encourage close monitoring of the share of loans that are still at risk, and we know that there has been restructuring of NPLs, but we still just feel that close monitoring of loans is warranted.

Finally, like Mr. Buisse, we also wanted to appreciate the work on climate change reforms and to encourage ongoing efforts to build resilience.

*The staff representative from the Asia and Pacific Department (Mr. Helbling):*

I will try to answer the questions in the order they come up.

On the investment fund, the fund is currently being established, and some of the operational details are still being decided. In particular, it is not clear whether the Fund will have an executive function as far as infrastructure projects are concerned or whether it will have a pure financing function. In the latter, it would be below the line operation in principle; but to the extent that the Fund will succeed in bringing in more long-term equity type financing, it will alleviate financing constraints and ultimately provide more fiscal space for infrastructure financing. The hope is that this will attract a different investor base than, say, for the plain vanilla rupiah government bonds which are currently widely used by international investors. There are longer-term-oriented investors who look to capitalize on the opportunities in emerging markets, and that is the hope for the Fund.

On the fiscal, I should mention that there has been extensive capacity development and a very good cooperation with the authorities. The authorities have, in fact, established a medium-term revenue strategy in 2017, which also resulted in a joint book, in which the authorities and the Fiscal Affairs Department (FAD) laid out a medium-term revenue strategy (MTRS). At the moment, I think the key is sustained political support to advance some changes in the law. Several fundamental tax reforms broadening the tax base, streamlining tax schedules and so on, law changes will need to be passed by Parliament. This is really the next step.

We have discussed with the Ministry of Finance, as mentioned by Mr. Mochtar, that the current crisis around the pandemic has highlighted the need for revenue. There are renewed efforts underway, so hopefully they will result in political support for legal changes.

On the monetary financing, there were several questions. There are a number of unknowns here. Indonesia is one of, I think to our count, 27 emerging market economies who have used asset purchases in the global market turmoil related to the pandemic last March. The situation is different from that in advanced economies, which are at the effective lower bound for nominal interest rates. In emerging market economist, in contrast, the main motivation for asset purchases has been market dysfunction, and there an open question is that some of the dysfunction has been longer than it has been in previous emerging market selloff periods. Of course, this dysfunction needs to be seen in the context of larger government financing needs, which poses new challenges.

So best practice is evolving. We propose several recommendations, including clarifying some of the objectives, as has been done for unconventional monetary policy (UMP) more broadly, to facilitate communication and ultimately strengthen the transmission to expectations and, ultimately, to clarify the policy.

When we talk to colleagues in the Monetary and Capital Markets Department (MCM), they suggest that among central banks there is a view that best practice are secondary market purchases. We are more agnostic on this issue, because there is a lot of market segmentation, including in terms of the demand for the type of bond in Indonesia. Domestic investors tend to have a shorter-term focus. Foreign investors have invested into longer-term bonds, 10, 15 or 20 years for local currency rupiah bonds, and there is not a lot of fluidity. Also, there is a tendency for buy-to-hold type investments especially among domestic investors, so yield curve arbitrage in the secondary market is not very strong. Put differently, secondary markets are not yet fully developed. This provides for a case for primary market purchases, also considering relatively high transaction costs. Nonetheless, as the policy continues, we think there is scope to explore secondary market intervention by BI. As these asset purchases are a new development, BI's strategy is still evolving.

Finally, on safeguards, let me mention three. First, we think that the market mechanism, which is more last-resort-oriented than the burden-sharing, does not involve predefined amounts, is a safeguard, as it also facilitates exit. Second, the BI is allowed to buy longer-term government bonds in the primary purchases for the same time as the suspension of the deficit ceiling, that is through end-2022, so there is only temporary monetary financing by definition or by law, so to speak, so that is clearly a safeguard.

Finally, an important safeguard ultimately is Indonesia's sound fiscal policy. So, if one looks at some of the concerns about fiscal dominance, the share of interest payments in the budget and so on so forth, I think the concerns there are less, and I think the sound fiscal policy, including after recent fiscal policy, I think will less impose a de facto constraint on monetary policy autonomy than it would with much higher debt rates.

There was a question on anti-corruption efforts. In this consultation, the focus was on such efforts around the exceptional pandemic-related spending, and we laid out the discussions on the subject in the Staff Report. We would also note that the tax expenditure report, which was recently published for 2019, a practice that was established a year before and that will continue, is a very useful step, in particular also in a country that still has considerable tax exemption and tax incentives, so we think that is a good step forward. I would also like to note that Indonesia's anti-corruption commission is still working and continues to be effective.

*Mr. Mochtar:*

On behalf of the Indonesian authorities, I would like to thank the mission team for their constructive engagement during the Article IV consultation and for the comprehensive set of reports. I also appreciate the Directors for the thoughtful comments and constructive advice, which I will fully convey to my authorities.

Let me respond to Directors' inquiries on the central bank loans and the upcoming regulatory reform, as questioned by Mr. Guerra and other Directors. The regulatory reform on the financial sector is aiming at strengthening and deepening our financial market. Authorities reaffirm their commitment that financial regulatory reform will not impede central bank independence. Indonesia has a proven track record on the central bank independence in more than two decades, which successfully lays the foundation for the economic stability.

The second concern is about currency redenomination by Mr. Mozhin. This policy actually is under discussion among agencies in Indonesia, the Ministry of Finance of Indonesia and another Ministry. It is a bit long preparation for this because it means a credible policy, including about the communication that this policy will not deflate purchasing power. Indonesia has experience on this, about the experience in 1965, so we take this very seriously. Apart from this, going forward my authorities will continuously recalibrate the macroeconomic policy mix to update the policy integration, including to respond to downside risks by exercising their available policy space.

My authorities also are committed to continuing their reform agenda to alleviate any structural impediments in Indonesia's economy. In this regard, the role of the Fund as a trusted advisor to member countries, particularly in the current challenging environment, will be very essential to provide robust policy advice. Thereby, continued close engagement with the authorities will be urgent.

I would like to end my remarks by thanking Mr. Helbling and the rest of the team for their productive and candid dialogue with the authorities. I would also thank you, Madam Chair, for the close guidance for the mission team. My authorities have benefited from the constructive engagement and look forward to building a good collaboration with the Fund in the years to come.

*The Acting Chair (Ms. Sayeh):*

As Directors have underlined, many policy challenges lie ahead in an environment that is marked by greater uncertainty than usual and finding the right balance between near-term support and a return to medium-term policy anchors will be challenging in this environment, and policies may have to adapt quickly to changing circumstances. The authorities should also clearly sustain their push for important structural reforms to promote strong and inclusive growth. We, of course, stand ready to accompany and support Indonesia on this path.

The Acting Chair (Ms. Sayeh) noted that Indonesia is an Article VIII member and no decision is proposed.

*The Acting Chair (Ms. Sayeh) adjourned the discussion.*

# ANNEX

- Gray Statements
- Staff Responses to Executive Directors’ Technical Questions
- Constituency Codes

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY**

BUFF/ED/21/22

February 9, 2021

**Statement by Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri on Indonesia**
**Executive Board Meeting 21/16**
**February 12, 2021**

On behalf of Indonesian authorities, we would like to thank the IMF mission team for a comprehensive and effective mission under an exceptional circumstance. We value staff's deep dive into Indonesia's economic development to build a constructive policy dialogue during the 2020 Article IV consultation. The authorities found the discussions valuable and broadly share staff's analysis and recommendations, in particular on how to navigate the recovery.

## Recent Economic Development and Outlook

**The COVID-19 outbreak has generated unprecedented pressures on the health and socio-economic conditions, but the prompt and bold policy responses have successfully mitigated the fallouts.** Economic growth has contracted sharply in the second quarter of 2020, before rebounding in the following quarter owing to gradual economic reopening and a package of policy supports. GDP growth in 2020 recorded at -2.07 percent was better than the estimated regional average of -3.7 percent. External sector has exhibited resilience supported by higher capital inflows and lower current account deficit (CAD) resulting in the balance of payment recording a surplus in 2020 and a strong international reserves position. Exchange rate has remained flexible and continued to play a role as a shock absorber to the economy. Consumer Price Index (CPI) inflation has declined to 1.68 percent at the end of 2020, below the target range of 3.0±1.0 percent, mainly due to a positive food supply shock reflecting a strong harvest and weak demand. Financial system stability was also maintained backed by adequate buffers built prior to the pandemic and ongoing liquidity support by the central bank, Bank Indonesia (BI). The stress-test result indicated that the capital adequacy ratio (CAR) of the banking industry and finance companies remains sufficient to offset higher credit and financing risk, even under severe macroeconomic conditions. Nonetheless, waning domestic demand and increasing risk perception of banks amid the pandemic shock have become a challenge to spur credit growth.

**Economic recovery is expected to strengthen in 2021.** Staff's GDP projection of 4.8 percent for 2021 lies within the lower bound of the authorities' forecast (4.8 – 5.8 percent). The sanguine outlook is underpinned by global economic recovery, accelerated vaccines rollout, and continued strong policy stimulus packages. Inflation is expected to be well-contained within the target band of 3.0±1.0 percent. CAD is predicted to be within 1.0-2.0 percent of GDP in 2021, a slight increase compared to 2020 in line with the expected economic recovery. Financial system stability continues to be well-maintained with the credit growth projected to accelerate to 7.0–9.0 percent. In the medium term, Indonesia's economic growth will continue to recover in the range of 5.5 – 6.1 percent in 2025, consistent with improved productivity and buttressed by ongoing structural reforms.

**The authorities, however, remain vigilant amid the uncertainties surrounding the pandemic and measures were adopted to mitigate the risks**. With their adequate policy space as a result of credible policy framework, the authorities stand ready to undertake necessary policy actions as needed to preserve macroeconomic stability. In dealing with the pandemic, the Government is committed to providing free vaccines to all citizen in two stages. The first stage (Jan-April 2021) is targeted for health workers and public service officers, while the second stage (April 2021-March 2022) will be delivered to the rest of population. In this regard, they have secured a large amount of vaccines (more than 300 million doses) from various producers and are closely monitoring its distribution nationwide. On the non-financial corporate (NFC) sector, the authorities viewed that the risk remains manageable, in line with recent positive developments. The data show that corporate sales started to pick up in the third quarter of 2020, followed by improving corporates buffer as reflected in their accelerated deposit growth in banks. In addition, many of those corporates are conglomerate firms, which enables them to receive intra-group financing supports. To facilitate corporate revival, the authorities have provided guidance on gradual reopening of priority sectors in accordance with their productivity and safety level. Going forward, the authorities will continue to closely monitor the situation and stand ready to provide further support if needed. On external risks, the corporates' balance sheet FX risk has declined significantly due to the authorities' prudential regulation imposing hedging requirement on corporate FX loans. Recent data showed that more than 90 percent of corporates complied with this regulation, making corporates' balance sheet less susceptible to currency risk.

**Policy Responses**

**As highlighted in the Staff Report, the authorities have taken a bold, comprehensive, and coordinated policy response to mitigate the unprecedented impact of the crisis and to steer the economic recovery**. To enhance policy efficacy, the authorities enacted Law No. 2 of 2020 as the legal basis for undertaking extraordinary responses in a swift, transparent, and accountable manner during the COVID-19 pandemic. This law provides for a temporary relaxation of the budget deficit ceiling which can be widened beyond 3 percent of GDP until 2022. BI is also permitted to purchase government bonds (SBN) in the primary market from the Government, in accordance with the prudential principles cited in the Act. The law also includes financial system stability policies aimed at enhancing the role of the financial service authority (Otoritas Jasa Keuangan/OJK) and deposit insurance corporation (Lembaga Penjaminan Simpanan/LPS).

**Going forward, the authorities remain committed to supporting economic recovery and advancing structural reforms**. In the near-term, the authorities are expediting the deployment of the vaccines. These essential policies would be buttressed by five-coordinated policy strategies, namely (i) reopening of productive and safe sectors; (ii) expediting fiscal stimuli; (iii) stimulating bank lending on the supply and demand sides; (iv) maintaining monetary and macroprudential stimuli, and (v) accelerating economic and financial digitalization. These policies will be tied in with structural reforms to boost long-term growth.

***Fiscal Policy***

**The Government has implemented an expansionary fiscal policy in 2020 as a countercyclical policy to cushion the impact of the COVID-19 crisis and support economic recovery**. Government expenditures were significantly increased to support the COVID-19 and the national economic recovery program (Program Pemulihan Ekonomi Nasional/PEN) amounting to Rp. 695.2 trillion (4.2 percent of GDP), for public goods (i.e. health, social assistance, and public services) as well as non-public goods (i.e. incentives to MSMEs, business and corporations). These large fiscal stimuli have widened the budget deficit to 6.1 percent of GDP in 2020 from 2.2 percent of GDP in 2019. To ensure the effectiveness of fiscal measures related to the COVID-19 as well as to safeguard accountability, staff has rightly pointed out the three-pronged approach adopted by the Government, namely to initiate early consultation with the Audit Board of Indonesia, to institute monthly reporting requirements on COVID-19-related programs, and to plan for an ex-post evaluation of the effectiveness of the incentives.

**In 2021, the Government will continue to adopt countercyclical fiscal policy to secure economic recovery, followed by a gradual reduction of budget deficit to ensure fiscal sustainability**. In this regard, overall budget deficit is expected to be around 5.7 percent of GDP in 2021. The authorities would like to reiterate their commitment to gradually bring the budget deficit back below 3 percent of GDP in 2023, supported by further revenue mobilization and enhanced spending efficiency.

**The Government will continue to enhance revenue mobilization and improve spending efficiency to support medium-term fiscal adjustment.** As the authorities acknowledge the importance of the Medium-term Revenue Strategy (MTRS), their intention to continue improving fiscal revenue has been set out on a 2020-2024 strategic plan, which is formally adopted in the Minister of Finance regulation (PMK) number 77/PMK.01/2020. Several strategic initiatives would be undertaken to increase potential sources of revenue (i.e. tax, duty, excise and other non-tax revenue), including (i) improving tax compliance, in particular taxation (VAT) of e-commerce transaction, (ii) developing digital-based tax and other revenue services, (iii) expanding tax-base and non-tax base, and (iv) modernizing revenue administration. The revenue reforms will be underpinned by enhancement in many aspects, such as institution, human resources, IT and databases, business processes, and tax regulations. These initiatives would be complemented by regulatory reforms related to taxation, such as the Omnibus bill. On the expenditure front, government spending will be prioritized to facilitate the resilient recovery with a focus on health, education, infrastructure, food security, social safety net, tourism, and MSMEs. The authorities underscore that fiscal policy will be flexibly implemented within the 2021 budget spending envelope following a data-driven approach, along with more targeted subsidy and effective social assistance to protect the most vulnerable group. Also, excess financing (SiLPA) from the 2020 State Budget amounting to Rp. 234.7 trilion, in part (Rp. 50.9 trillion) will be carried over to 2021 to finance the vaccination program and support SMEs and corporate sectors, meanwhile the rest will remain in the cummulative financing surplus (SAL).

***Monetary and Exchange Rate Policy***

**In dealing with the extraordinary crisis, BI has pursued an accommodative monetary policy, utilizing all available policy instruments.** BI has lowered its policy rates (BI7DRR) five times by 125 bps to 3.75 percent in 2020, the lowest level in history. BI has also injected large amounts of liquidity into the banking system, particularly through a 300 bps reduction in the statutory reserve requirement and monetary expansion by buying government bonds in the secondary market. Amidst global financial market uncertainties, exchange rate stabilization policy has been adopted such that the value of the Rupiah is in line with its fundamentals and market mechanism. Stabilization policy to manage excessive volatility was undertaken through a 'triple intervention' via outright buying and selling of foreign exchange in the spot market, Domestic Non-Deliverable Forward (DNDF), and purchases of SBN from the secondary market.

**In accordance with Law No.2 of 2020, the purchase of SBN in the primary market has been conducted prudently, consistent with good governance principles, so as to preserve macroeconomic stability.** The purchase of SBN in the primary market by BI to finance the 2020 State Budget deficit is carried out through 2 mechanisms. As laid out in the first joint agreement between the Minister of Finance and the Governor of BI (April 16, 2020), the purchase of SBN will follow four main principles, namely: (i) using market mechanism; (ii) considering the impact on inflation; (iii) purchasing only tradable and marketable SBN; and (iv) BI purchasing SBN on a last-resort basis. Under this first Joint Agreement, BI has purchased SBN in the primary market amounting to Rp75.86 trillion. There was also a second joint agreement between the Minister of Finance and the Governor of BI (on July 7, 2020), where BI purchased SBN directly from the Government for public goods financing in the 2020 State Budget amounting to Rp. 397.56 trillion, with the interest to be borne by BI. Under this second Joint Agreement, BI also bear a portion of the interest burden to finance non-public goods related to MSMEs and corporate incentives, amounting to Rp. 177 trillion. The authorities have confirmed that this second joint agreement is a one-off policy and thus only applicable in 2020. BI's support for fiscal financing in the context of handling Covid, which was carried out by adhering to the principles of governance, prudence, and monetary discipline, has succeeded in maintaining the confidence of investors and rating agencies. This can be seen in the return of capital inflows, particularly to SBN and the retention of Indonesia's rating by the major rating agencies.

**Looking ahead, monetary policy in 2021 would continue to support economic recovery, while safeguarding macroeconomic stability.** Low interest rates and ample liquidity will be maintained while closely keeping an eye on inflationary pressures. Liquidity will remain loose to support bank lending and financial system stability. Moreover, the stability of the Rupiah exchange rate will be maintained in accordance to its fundamentals and market mechanism. The FXI will be adopted as needed to address any disorderly market conditions. The Government's effort to continuously develop the retail bond market to widen domestic-based investor will contribute positively to exchange rate stabilization. In addition, several reform initiatives to attract long term investment, particularly through FDI, will eventually improve capital flows composition as well as enhance external sector resiliency.

**BI and the Government will continue to closely coordinate their monetary and fiscal stimulus to accelerate the economic recovery**. The direct purchase of SBN by BI in accordance with the second joint agreement will not be continued in the 2021 State Budget. However, as the recovery in the post COVID-19 episode is still underway, the first joint agreement is extended until December 31, 2021, in which the purchase of SBN will be in accordance with the four aforementioned main principles to ensure price stability.

***Macroprudential and Financial Sector Policy***

**BI continues to pursue accommodative macroprudential policies to mitigate the adverse impact of the pandemic-related shock on the financial system as well as to support the economic recovery**. Since April 1, 2020, BI has lowered the reserve requirement ratio by 50 bps ─in addition to the 300 bps reduction in the statutory reserve requirement─ for banks lending to export-oriented businesses, SMEs, or priority sectors and has extended this policy until June 2021. To stimulate banking intermediation, BI kept the Countercyclical Capital Buffer at 0 percent and relaxed the Macroprudential Intermediation Ratio. BI has also strengthened banking liquidity through the regulation on Macroprudential Liquidity Support. In addition, BI relaxed the provision for the Loan to Value ratio for environmentally friendly motor vehicle loans to 0 percent.

**OJK and LPS have also embarked on various policies to dampen the impact of the pandemic.** OJK has deployed a policy package that aims at relaxing certain regulatory provisions in the banking sector to alleviate financial and liquidity pressure during the crisis. The policy package for banks include relaxation measures related to reporting, credit treatment, and governance of restructured credit, as well as postponement of the implementation of Basel III reforms. As of December 2020, restructured credit has reached Rp. 971 trillion (18 % of total credit). In this context, partial relaxation of loan classification rules will also be extended until March 2022. The extension of loan restructuring relaxation is expected to minimize the potential cliff effects due to tighter risk management requirements. Banks are required to ensure debtors' viability throughout the relaxation period by implementing continuous assessment of debtors' conditions. In this context, banks must build provisions accordingly. Furthermore, banks have adequate capital to absorb the possible increase in provisions going forward. In addition, LPS has relaxed the penalty for late premium payments to ease the liquidity pressures during the crisis.

**Going forward, financial sector policy will remain accommodative to boost credit growth during the recovery process, while preserving financial system stability**. BI will assess the possibility to further ease a number of existing and new macroprudential policy instruments. To promote MSMEs-based growth, BI will issue a macroprudential policy by expanding the target and coverage of inclusive financing, provide incentives for banks that encourage the corporatization of MSMEs (particularly in the priority sectors), and promote the securitization of MSMEs loans. This will be complemented by OJK's microprudential supervision, as described in the Indonesian Financial Services Sector Master Plan (MPSJKI) 2021-2025. This will address the short-term challenges related to the COVID-19 shock as well as the long-term structural challenges to promote a stable, contributive and inclusive financial industry. In addition, coordination through the Financial System Stability Committee will also be fortified, including enhancing the crisis management protocol in the financial system. Crisis management and resolution frameworks along with maintaining financial stability have become a high priority for the authorities.

***Structural Reforms***

**The authorities will continue their reform agenda to improve productivity and to achieve a strong, sustainable and inclusive growth, while also steering towards a greener economy**. Continuous efforts are underway in the multi-dimensional aspects of the reforms. Recent notable reforms are on the financial sector, regulatory reform through the omnibus bill, establishment of the Sovereign Wealth Fund (SWF), and green economy policies.

**On the financial sector, BI continues to accelerate money market deepening and digitalization of the payment system.** BI has formulated the 2025 Money Market Deepening Blueprint that could strengthen monetary policy transmission as well as support financing for the economy. Moreover, BI has launched the 2025 Indonesian Payment System Blueprint to speed up the digitalization of the payment system. Payment system regulatory reforms directed at the establishment of end-to-end digital economy and finance ecosystem between digital banking, FinTech, e-commerce, merchants and consumers are also underway.

**Simplifying regulations is the top reform agenda to enhance business climate and create jobs.** The authorities have enacted the omnibus bill on job creation on November 2, 2020, which includes tax related matters. This entails a massive process of synchronization of existing laws, including the revision of 80 laws and 1.200 articles. The bill will streamline business permits, improve the ease of doing business, create employment opportunities as well as protect employees. It also includes tax incentives for businesses, including through adjustment of the corporate income tax rate. The enactment of the bill together with the implementation of the Regional Comprehensive Economic Partnership (RCEP) will benefit the Indonesian economy. Meanwhile, the omnibus bill to develop and strengthen the financial sector is still under discussion, and the authorities underscored that the bill will secure the central bank's independence.

**Following the enactment of Omnibus Law on Job Creation, the government has established a new SWF called the Indonesia Investment Authority (INA)**. This aims at deepening access to finance to boost investment and accelerate infrastructure projects and other priority sectors, which in turn will generate new job opportunities and improve productivity. Under Government Regulation No. 72 of 2020, the Government provides initial capital to INA amounting to Rp. 15 trillion (or around US$ 1 billion).

**The authorities are committed to strengthening ongoing efforts towards a greener economy**. In the wake of the 2011 National Action Plan for Greenhouse Gas Emission Reduction, the authorities have established an Environmental Fund Management Agency (BPLDH) in 2019 to attract national and international donors as well as to effectively mobilize public and private funds in order to support the programs. Recently, the Medium-Term Development Plan 2020-2024 reflects Indonesia’s strong commitment to shift to a low carbon economy and a more climate resilient path, through several key initiatives such as renewable energy and energy efficient development, forest conservation and reforestation, waste management, land intensification, and others. Indonesia has also continued to develop a green bond market through the issuance of the Green Sukuk (Islamic bonds) since 2018.

GRAY/21/403

February 9, 2021

**Statement by Mr. Tanaka, Mr. Chikada, and Mr. Kuretani on Indonesia (Preliminary)**
**Executive Board Meeting 21/16**
**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.

GRAY/21/408

February 10, 2021

**Statement by Ms. Levonian, Mr. O'Brolchain, and Ms. Edwards on Indonesia (Preliminary)**
**Executive Board Meeting 21/16**
**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.

GRAY/21/414
Revised

February 10, 2021

**Statement by Mr. Massourakis and Ms. Korinthios on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

*We thank staff for the well-focused set of papers and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for an informative Buff statement. Indonesia's response to the pandemic has helped cushion its impact, but, as elsewhere, the crisis has led to socio-economic hardship and economic downturn. We broadly agree with staff's appraisal and recommendations and wish to offer a few comments for emphasis:*

- **We commend the authorities for their prompt policy response to the pandemic, which has helped to save lives and livelihoods, and to preserve macro-financial and external stability.** Although the economic recovery is projected to strengthen in 2021 and 2022, the economic outlook is subject to a larger than usual uncertainty, thus we urge the authorities to remain vigilant against downside risks. We are reassured by the fact that the authorities adopted measures to mitigate these risks and stand ready to undertake the policy actions needed to preserve macroeconomic stability, as underscored in the Buff statement. Given Indonesia's high exposure to natural disasters, further progress to increase its resilience to climate change would be critical.

- **We share staff's view that the plan to return to the budget deficit ceiling by 2023 should be backed by a robust medium-term fiscal strategy as well as revenue mobilization.** We are encouraged by the fact that the authorities remain committed to enhance revenue and improve spending efficiency. The passing of the omnibus bill on job creation represents an important step toward boosting investment and productivity. We also welcome the recent establishment of the Nusantara Investment Authority, which will seek to attract foreign investment to finance infrastructure projects and stimulate economic growth. We very much welcome the signature of the Regional Comprehensive Economic Partnership, which is an historic milestone. *We would appreciate staff's comments on prospects for Indonesia*. Moreover, we share staff's recommendation to sustain the strong structural reform momentum, with the focus shifting to financial deepening and digitalization, and welcome the steps in this direction. We also welcome the authorities' commitment to strengthening efforts towards a greener economy.

- **The timely adjustment of BI's policy mix helped ease monetary conditions and support orderly financial market functioning amid large capital flow volatility. We welcome exchange rate flexibility and we agree that the exchange rate should continue to play its role as a shock absorber to the economy.** Finally, we thank staff for the interesting selected issues paper, in particular for the insightful analysis on the benefits and risks associated to a high participation of nonresidents in domestic bond markets.

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GRAY/21/416

February 10, 2021

**Statement by Mr. De Lannoy and Mr. Hanson on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

*We thank staff for their insightful report and the interesting set of Selected Issues Papers, and Ms. Mahasanana, Mr. Mochtar and Ms. Susiandri for their informative Buff statement. We welcome the authorities' policy response to mitigate the economic consequences of the COVID-19 pandemic. The introduction of the National Economic Recovery Program and the easing of monetary policy have been appropriate actions to stabilize the economy. We agree that maintaining policy support in the near-term is appropriate to support the recovery and pre-empt the materialization of downside risks in an uncertain economic environment. We broadly support staff's assessment and would like to add the following remarks:*

**We join staff in encouraging the Indonesian authorities to work towards a more detailed medium-term fiscal strategy.** Indonesia's fiscal framework helped the country reduce its debt to GDP ratio from almost 90 percent in 2000 to 30 percent in 2019, which created welcome room to absorb the current shock. We believe the temporary suspension of the fiscal rule at the start of the crisis was appropriate. We encourage the authorities to return to their fiscal rule once the recovery is underway.

**We agree that domestic revenue mobilization can generate room for productivity- and welfare-enhancing investments in infrastructure, education, health care, and social safety nets.** We support staff's suggestion to design a medium-term revenue strategy based on previous IMF capacity development.

**We welcome the discussion of climate risks in the report.** Indonesia is particularly exposed to climate change risks due to its vulnerability to natural hazards and its status as fossil fuel and palm oil producer. We welcome the authorities' efforts to tackle climate change, including through the issuance of green sukuks. We agree with staff's policy advice in this area, including the implementation of the 2021 energy subsidy reform. Staff notes a possible trade-off between promoting development and reducing greenhouse gas emissions. Chapter 3 of the October 2020 WEO describes a policy mix of green investments combined with carbon pricing that would enable the transition to a zero-carbon economy at only moderate output costs. *We would be interested in a follow-up analysis by the Fund tailored to countries with development needs.*

**We welcome table 12 on the integration of Fund surveillance and capacity development.** We understand from the report that the Fund stands ready to provide further capacity development in the area of revenue mobilization. *Can staff comment on plans for further technical assistance?*

Finally, we encourage the authorities to consent to the publication of the report.

GRAY/21/419

February 10, 2021

**Statement by Mr. Merk and Mr. Krahnke on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for the informative set of reports and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their helpful Buff statement. **We are in broad agreement with staff's appraisal and commend the Indonesian authorities for having launched a decisive policy response to counteract the impact of the crisis, while taking advantage of their prudent macroeconomic policy track record in previous years.** This notwithstanding, the economy was affected severely, and additional fiscal support will be necessary in 2021. Monetary policy should remain accommodative without impeding the policy goal of price stability. We agree with staff that the current crisis provides an opportunity for the implementation of structural reforms that also support the recovery. Stronger domestic credit growth will be crucial for the economic recovery going forward and possible credit supply frictions should be addressed through appropriate means if credit growth fails to pick up.

**In light of the striking upward trend in current COVID-19 cases, a swift recovery of the economy in early 2021 appears somewhat optimistic.** We understand that the economy is expected to rebound with the easing of containment measures. At the same time, current growth projections are subject to heightened risks and seem to build inter alia on a fast deployment of effective vaccines. *In this context, we would like to know staff's assessment on the likely recovery path if this particular assumption would turn out to be wrong.* To protect the vulnerable groups in case of a prolonged pandemic, the authorities should consider increasing healthcare spending. Additionally, timely availability of economic indicators is crucial to decide on effective policies to counter the pandemic. With the latest data available in the staff report reflecting Q3 2020 and the authorities following a data-driven approach (para. 24), additional economic indicators might be helpful in order to facilitate the evaluation of current policy measures. *Does staff already have preliminary estimates for Q4? Furthermore, we wonder whether non-conventional real-time indicators have already been used or considered by the authorities to monitor the economy, given the time lag of official data?*

**We note positively that despite the exceptional fiscal support, the government debt ratio is projected to remain below 60 percent.** We agree with staff that this leaves some room for additional measures should downside risks materialize. Nonetheless, we echo staff's view that for a credible reduction of the budget deficit, a medium-term fiscal strategy including reforms to increase government revenues would be helpful to anchor future fiscal policy. This would also allow to early phase out monetary budget financing, which should be limited to the current very exceptional circumstances. The authorities should also build on the Fund's capacity development support to foster reform plans. Regarding the transparency of spending, we welcome the steps taken to ensure the effectiveness of COVID-19-related policy measures.

**We agree with staff that the monetary policy should remain accommodative and that the exchange rate should remain flexible to cushion the impact of the crisis.** Still, monetary policy should not impede its price stability target by excessively financing the government budget. In this context, we second staff's recommendation that the purchase of government securities should be guided by clear rules regarding the time horizon and the criteria to purchase these securities. In light of the recent exchange rate appreciation and current inflation below the target range, we broadly concur with staff's assessment that there might be room for additional rate cuts should inflation dynamics remain muted, which however should be explored cautiously under a data driven approach. Given the weakness of the transmission channels of conventional monetary policy, we welcome the efforts to deepen the money market and foster electronic payment. This will help to improve the transmission of monetary policy and to re-allocate liquidity to where it is most needed.

**We take positive note that Indonesia was relatively successful in maintaining appropriate holdings of official foreign reserves, which helped to strengthen resilience.** With the holdings in dollar terms projected to rise, Indonesia should manage to preserve its reserves in terms of months of imports also when imports rebound after the Covid-19 related compression and as percent of its short-term debt over the next years. Given the increased uncertainty, also with respect to the course of the pandemic, and the risk of renewed capital outflows, a comfortable level of reserves becomes even more crucial.

**We note that according to staff there might be credit supply frictions and therefore concur with staff that additional measures could be considered to spur credit supply.** We agree that, should credit provision to the economy fail to pick up with the general recovery, the authorities should carefully weigh the costs and benefits of policy measures to support bank credit. *Have the authorities, to staff's information, indicated intentions to specific measures like extending the guarantee scheme in case credit supply remains subdued despite an economic recovery?* With banks already being risk averse, a deterioration of their balance sheets could further impede the recovery. While the relaxations of regulations (like suspending loan reclassifications) helped during the crisis, severe risks of cliff effects could have built-up and materialize in the course of 2021. This calls for close monitoring, pre-emptive measures like extended provisioning as well as the effective restructuring of loans.

**Finally, we concur with staff's assessment that the momentum should be maintained to promote necessary structural reforms**. We therefore encourage the authorities to pass the omnibus bill and welcome the related efforts to create jobs and ease labor market restrictions. This can improve investment climate and attract foreign direct investment. We agree with staff that the public investment to cushion the medium-term effects of the crisis should be aimed at projects to foster digitalization and to build resilience to climate change while promoting a greener economy. Regarding the design of the Nusantara Investment Authority, we urge the authorities to implement strong governance measures to reduce risks to the government budget and to be able to exert control on the direction of the infrastructure spending.

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GRAY/21/420

February 10, 2021

**Statement by Mr. Huh and Ms. Johnson on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for the informative set of reports, and Ms. Mahasandana, Mr. Mochtar, Ms. Susiandri for their comprehensive Buff statement. The Indonesian economy, which is the seventh largest economy in the world, has not been spared the impacts of the pandemic recording its first recession in 22 years. The strong policy response by authorities supported economic activity, reduced unemployment and bankruptcies and preserved macro-financial and external stability. Looking ahead, we concur with the overall staff assessment that the policy mix should remain focused on protecting macroeconomic and financial stability, including by implementing a medium-term fiscal strategy and increasing structural reform efforts. We broadly agree with the staff report and offer the following comments.

**An explicit medium-term fiscal strategy will be needed to anchor debt sustainability and preserve policy credibility.** We note the planned expansionary fiscal policy settings for 2021 and the authorities' commitment to return to the budget ceiling in 2023. But meeting the budget ceiling will not be easy and will require ambitious fiscal consolidation in 2022 and 2023. The challenge for the authorities will be to ensure fiscal support expenditure is unwound when economic conditions allow, and revenue is boosted sufficiently to support much needed development in education, infrastructure and social safety nets. We therefore agree with staff that implementing a medium-term fiscal strategy is imperative to build credibility, anchor expectations, plan for and guide contingency plans and reduce the need for further monetary financing.

**The longstanding revenue challenge in Indonesia persists and a medium-term revenue strategy is needed to boost growth potential and drive inclusive growth.** The passing of the omnibus bill on job creation is a welcome step towards tackling labor and product market challenges which will boost potential growth and inclusion. We welcome the authorities' recognition of the importance of revenue mobilization to support medium-term adjustment but note that Indonesian revenues are weak relative to ASEAN peers, and expenditure needed to meet development goals is sizeable. We agree with the staff assessment that the authorities should carefully design a medium-term revenue strategy (MTRS) now and plan for well-timed implementation of tax reforms when economic conditions allow. To this end, we welcome the inclusion of Appendix IV in the staff report. But the political and implementation difficulties with broad based tax reform should not be underestimated, and in this regard, we wonder what further efforts might be needed from the Fund or other partners to provide ongoing technical assistance to the authorities. *Staff comments are welcome.*

**Amid capital flow volatility, the policy mix should continue to preserve macroeconomic and financial stability.** We take note of the authorities' assurance that monetary budget financing was an exceptional and temporary measure to support the recovery. We agree with staff that monetary financing should be a backstop that is guided by a framework to avoid unnecessary risks, and as staff note, the objective should not be determined primarily by fiscal considerations to ensure ongoing central bank independence. This would have added benefits for market confidence and stability. As the Indonesian economy relies heavily on foreign capital for financial stability, we welcome the authorities' efforts to promote domestic financial deepening. However, we note that while developing the domestic capital market would bring significant benefits, it is unlikely to be a straightforward or a linear process and will take time to implement.

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GRAY/21/421

February 10, 2021

**Statement by Ms. Mannathoko and Mr. Jappah on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for the set of well-written reports, and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their informative Buff Statement. We are in broad agreement with the staff assessment and will focus our statement on several points related to risks identified. The outlook remains subject to significant uncertainty over the evolution and duration of the pandemic, and the timeliness and effectiveness of the vaccine rollout, following an increase in new daily cases amidst already high infection rates. There are also possible emerging banking sector vulnerabilities, as well as the potential for changes in global financial market conditions. Policy measures as articulated in the National Economic Recovery Program should remain focused on fiscal support to protect lives with a focus on deployment of additional resources to health and social programs prioritizing vulnerable sub-groups. Addressing structural weaknesses in the economy, and supporting digitalization as discussed in the Selected Issues Paper are also important at this time to support growth potential.

**As noted in the APD briefing, the slow vaccine rollout in Indonesia relative to the rest of the region, is likely to delay recovery, we therefore encourage the authorities to prioritize faster implementation of associated logistics.** The impact of COVID-19 has increased unemployment significantly and driven many into poverty, and delays in recovery will only worsen scarring. *Could staff clarify if the delays in vaccine rollout are the same delays cited for health spending and indicate what the main obstacles to faster vaccine rollout are?*

**We encourage the authorities to prioritize safeguarding human capital through timely health expenditures and effective social safety and education spending, with an emphasis on vulnerable segments such as girls and poorer women – and in particular female-headed households.** We note that Indonesia has the largest populations and highest number of COVID-19 infections among ASEAN countries, and some reporting indicates that the data underestimates infections due to limited testing capacity compared to other countries. The numbers of women affected are significant. *We are also interested if staff have* *a view on the Indonesia strategy to prioritize vaccinating working age adults over the elderly (though the latter are more vulnerable), with the aim of reaching herd immunity fast and reviving the economy?*

**We encourage a robust medium-term fiscal reform plan which we believe can help preserve Indonesia's standing in credit markets**. Notwithstanding the relatively low tax/GDP ratio, given the sharp increase in the total debt service to revenue ratio (which almost doubled in 2020), there is likely to be significant pressure on public finances for a few years and so we encourage a robust fiscal plan with a focus on revenue mobilization. A medium-term fiscal strategy is also crucial to facilitate the eventual unwinding of exceptional fiscal support. Plans to withdraw policy support must be informed by developments in the data recognizing social and economic realities, in order not to compromise the recovery.

**We encourage caution in continuing monetary financing of the budget in 2021 given the risks to central bank independence from prolonged monetary budget financing.** While we support staffs' recommendation for continued monetary accommodation, to the extent possible this should focus on further easing policy rates and genuinely treat government bond purchases by Bank Indonesia (BI) as an absolute last resort. We note the authorities' commitment to trigger the use of these purchases only as a last resort, but also urge a clear articulation of criteria for last resort conditions from the start. Given that it took years to build up the credibility of the central bank through the prudent use of its independence, it is important to guard against continued monetary financing affecting BI's independence from the Ministry of Finance.

**As measures such as relaxation of prudential requirements to help banks and corporates deal with the effects of the pandemic are to last for another year, we urge regulatory vigilance and close monitoring of asset quality.** Additional pressures could also arise from nonfinancial corporate entities holding significant foreign debt and susceptible to foreign exchange risks. That said, we commend the authorities for the progress made in implementing the 2017 FSAP recommendations and welcome the consideration of measures to strengthen prudential policy and financial oversight, monitoring of systemic risks and the crisis management framework.

**On non-performing loans (NPLs), while we agree that these are not high, nevertheless reporting shows that over a fifth were at risk by mid-2020.** *Could staff clarify the implications of BI rescinding the usual requirement to reclassify restructured loans to substandard – do staff have a view on the viability of the restructured loans?*

GRAY/21/425

February 10, 2021

**Statement by Mr. Pösö and Mr. Slettvag on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for the good report and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their informative Buff statement. Indonesia entered the crisis in a strong position after robust pre-pandemic performance and a prudent macroeconomic track record. This facilitated a comprehensive policy response that has helped contain the economic fallout from the pandemic, providing the ground for a strong recovery. Going forward, the focus should increasingly shift to how to unwind the exceptional support in a balanced manner, while incorporating green objectives more clearly in the recovery. **We broadly concur with staff's assessment and would like to offer some comments for emphasis.**

The bold fiscal policy response to the pandemic has been appropriate, and we commend the steps taken to ensure effectiveness and accountability of the measures taken. We welcome the plan to return to the budget deficit ceiling by 2023 but are somewhat concerned about the impact of the sizeable consolidation this entails in 2022 and 2023, which risks preventing critical spending on infrastructure, education, and social safety nets. **In this regard, we see merit in a faster unwinding of some pandemic-related programs, in particular if upside risks related to early vaccination materializes.** This could help ease the consolidation in the medium term, smooth the transition to private sector demand and eliminate the need for a central bank backstop for financing. We further encourage the development of a medium-term revenue strategy aimed at bringing tax revenue towards peer level. This would add credibility to the fiscal plans, reduce reliance on external financing and help lessen the trade-offs between deficit reduction and development expenditures. *Given the high share of public debt help by non-residents, could staff comment on how fiscal space could evolve in a scenario with deteriorating risk sentiment and tighter global financial conditions?*

**We are concerned about the possibility of further direct budgetary financing** and associate ourselves with the concerns put forward by Mr. Tanaka in his statement on monetary financing. We acknowledge the positive effects of the Bank of Indonesia's purchases of government bonds in the primary market in the midst of the global financial market turmoil in March. Still, monetary financing is an exceptional measure carrying significant risks to the central bank's operational independence and price stability objectives, and we encourage the Bank of Indonesia to strive to achieve its objectives through conventional secondary market operations going forward.

**Underlying solvency and capital adequacy issues in the banking system should be recognized and addressed upfront.** Easing of macroprudential policies and loan classification rules have successfully facilitated the adjustment of banks and corporates during the crisis. However, the relaxation of loan capital requirements could have biased key bank ratios including capital adequacy ratios, and bank asset quality should be monitored closely as the unwinding of policy support could reveal a larger than expected fallout from the pandemic. We support staff's calls for banks to start provisioning against credit losses, even under the relaxed loan standards, and for the Financial Services Authority to provide clearer guidance for appropriate provisioning going forward.

**We commend the authorities for looking beyond the pandemic with the introduction of the omnibus bill on job creation.** The comprehensive law package could reduce the cost of investment and attract foreign productive capital in a range of sectors by easing regulatory burden. Implementation risks are however considerable and high-quality governance and transparency will be critical for the success of the reforms. Steps should be taken to limit environmental impacts from deregulation in the mining sector and the deviations from former firm demands on environmental assessments. The bill also contains several measures that will further reduce the already low tax revenue, and steps should be taken to compensate for this revenue loss, including broadening the personal income tax base.

**Indonesia should implement further reforms to tackle climate change and build a greener economy.** Indonesia is one of the most vulnerable countries to climate change related risks and has room to further step up execution of adaptation plans to increase resilience to climate change. We also encourage the authorities better facilitate the transition to a green economy, including by putting more emphasis on green investments in the mandate of the new Nusantara Investment Authority to ensure that it goes beyond traditional infrastructure such as roads, ports, and airports. We note positively that Indonesia is projected to overachieve on its commitment under the Paris Agreement, and would encourage the authorities to consider a carbon neutrality pledge which could serve as a solid commitment toward a greener economy and further boosting green investment.

GRAY/21/426

February 10, 2021

**Statement by Mr. Zhang and Ms. Liu on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for the comprehensive reports and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their informative Buff statement. The COVID-19 outbreak has interrupted Indonesia's stable economic growth in the years before the pandemic and generated unprecedented pressures on the health and socio-economic conditions. We commend the authorities' prompt and bold policy responses which have successfully mitigated the fallouts. The GDP growth has been better than the estimated regional average, while the recovery is projected to strengthen in 2021 and 2022. Nevertheless, the economic outlook remains subject to a larger-than-usual uncertainty. Continued efforts are needed to contain the pandemic and sustain the economic recovery. We welcome that the authorities remain committed to supporting economic recovery and advancing structural reforms. We broadly agree with staff's appraisal and would like to limit our comments to the following for emphasis.

We are encouraged to note that the authorities had implemented a fiscal package focusing on managing the health crisis and strengthening social protection programs to protect the most vulnerable and mitigate the impact of the COVID-19 pandemic. We support staff's recommendation that the fiscal policy stance should remain moderately expansionary with the envisaged increase in public investment. We understand that the fiscal stimulus came at a cost which could result in an increase in budget deficits, and efforts are needed to strengthen fiscal rules once the crisis abates. In this regard, we welcome the authorities' commitment to return to the 3 percent of GDP budget deficit rule by 2023 and encourage the authorities to improve spending efficiency and revenue mobility. We see merit in staff's recommendation that a medium-term fiscal strategy backed by revenue measures could help anchor expectations and reduce risks to policy credibility. We welcome the authorities' three-pronged approach to foster transparency and safeguard public accountability to ensure the effectiveness of COVID-19 related fiscal measures.

We welcome the central bank's extraordinary efforts in response to the COVID-19 crisis which helped ease monetary conditions and support orderly financial market functioning amid large capital flow volatility. We support the current accommodative monetary policy stance to sustain the recovery and understand that the BI's buying government bond in the primary market was temporary and that the authorities are very cautious in conducting such measure. We hope it will not affect the central bank's independence and encourage the authorities to manage the associated risks. We welcome that the central bank has allowed for greater exchange rate flexibility during the global market turmoil in March 2020. We encourage the authorities to remain vigilant about potential tighter external financial conditions which could induce domestic financial stress while keeping the exchange rate flexible and market driven.

We take positive note that the banking system has remained stable and resilient, while risks from the non-financial corporate (NFC) sector remained manageable. Nevertheless, risks of deterioration in banks' asset quality warrant closer monitoring. Going forward, we encourage the bank supervisor to remain vigilant and take supervisory actions as needed. The financial sector omnibus bill to strengthen financial oversight and crisis management is welcomed. We believe that the authorities' efforts to develop the retail bond market to widen domestic-based investors will contribute positively to exchange rate stabilization, while several reform initiatives to attract long-term investment, particularly through FDI, will eventually improve capital flows composition as well as enhance external sector resiliency.

We take positive note that the authorities have enacted the omnibus bill on job creation which could help improve the ease of doing business and create job opportunities. We encourage the authorities to continue to improve the business environment to promote a conducive environment for domestic and foreign investments that would support inclusive and sustained economic growth. Given its high exposure to related natural hazards, we encourage the authorities to continue to make efforts to increase its resilience to climate change and promote a greener economy.

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

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GRAY/21/430

February 10, 2021

**Statement by Mr. Bevilaqua, Mr. Saraiva, and Ms. Mohammed on Indonesia (Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for the report and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their helpful statement. We commend the authorities for the bold and comprehensive policy measures to help save lives, maintain livelihoods, and preserve macro-financial and external stability. The Indonesian economy is well positioned for a moderate recovery, however large uncertainty to the outlook prevails. While early completion of a widespread vaccination program is a welcome upside risk, a protracted pandemic continues to tilt the risk to the downside. Going forward, the authorities are encouraged to adopt policy measures to preserve fiscal sustainability and safeguard financial stability whilst advancing structural reforms.

**Taking advantage of existing space, fiscal policy should remain supportive in the near term to foster the recovery.** We welcome the authorities' moderate expansionary fiscal policy in the near term and their intention to have a data-driven approach to unwinding support. We positively note that fiscal space is available in the near term to allow flexibility to redesign policies and reallocate budget resources to the most affected sectors, should downside risks materialize. Once the recovery is entrenched, the fiscal stance is expected to move towards gradually reducing the deficit over the medium term. In this context, we welcome the authorities' commitment to return to the budget deficit limit by 2023 through higher spending efficiency and revenue optimizing reforms. Adopting a medium-term revenue strategy merits consideration to anchor revenue expectations and reduce the reliance on external sources of financing. This should be complemented with further implementation of the 2019 PIMA recommendations to improve the quality and efficiency of spending, while ensuring debt sustainability. Technical assistance and advice from the Fund on revenue mobilization, including on strengthening the tax administration and policy framework would be key. At the same time, developing a careful communication strategy will also be important to garner broad public support for tax reforms. Strengthening the social safety nets, together with implementation of labor market policies focused on increasing employment opportunities would help minimize the long-term scars on the economy.

**We commend the Bank Indonesia (BI) for their timely and effective policy action in easing monetary conditions**. We positively note that the enhanced liquidity provisions to banks and key markets together with greater exchange rate flexibility supported the orderly functioning of financial markets. While we note that the bond purchases under the market mechanism would be used as a last resort to help with the recovery, we believe that this mechanism should be temporary and coherent with the established monetary policy objectives. Meanwhile, given that inflation is currently below the targeted range, we welcome the authorities' intention to maintain its monetary policy stance until early signs of inflation pressures emerge. The authorities' commitment to exchange rate flexibility is also welcomed.

**While the financial sector remains sound so far, proactive monitoring of credit risks would be essential going forward.** The relaxation of macroprudential regulation and loan classification rules have provided much needed relief. However, underlying vulnerabilities have increased the loans at risk and the deterioration of asset quality, which is now anticipated to be larger, once the partial relaxation of loan classification rules and policy measures expire. We also take note that the pandemic has taken a toll on vulnerable nonfinancial firms, which places further strain on the banking system. In this regard, the authorities should remain vigilant to recognize and address solvency and capital adequacy issues early to avoid adverse confidence effects. The timely resolution of failing banks would be important to maintain financial stability. In this regard, strengthening crisis management and the resolution framework, in line with the 2017 FSAP recommendations, should be a priority going forward.

**We welcome the authorities' accelerated efforts to foster digitalization and deepen the financial system.** Over the years, Indonesia have made encouraging progress towards a digital economy with the adoption of e-commerce and digital financial services. The COVID-19 pandemic has provided an opportunity to harness the potential economic benefits from digitalization towards a more inclusive recovery, while being mindful of emerging risks. In view of this, we welcome Chapter 6 of the SIP on digitalization and encourage the authorities to promote financial inclusion by ensuring equal access to digital-friendly infrastructure, addressing barriers to digital technology adoption and strengthening regulations. Financial deepening remains central to unlocking domestic resources and reducing reliance on volatile capital flows. In this connection, we welcome the authorities' accelerated efforts to deepen the financial system including the payment system to support digital economic and financial integration to improve the monetary policy transmission mechanism. At the same time, we emphasize that robust safeguards should be in place to counter increased vulnerability to data and privacy risks, loss of digital connectivity due to natural disasters, cyber-attacks, money laundering and terrorist financing.

**Advancing structural reforms and simplifying regulations are paramount to enhance the business climate and create jobs.** We welcome the omnibus bill on job creation and the establishment of the Indonesia Investment Authority. We positively note that these initiatives would help improve the ease of doing business, create employment opportunities, as well as accelerate infrastructure projects in priority sectors. Nevertheless, the authorities should continue to address the bottlenecks in the labor markets, including limited human capital development, skills mismatches and low female labor participation to improve productivity and achieve sustainable and inclusive recovery.

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GRAY/21/431

February 10, 2021

**Statement by Mr. Buissé, Mr. Rozan, and Ms. de Waziers on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for the quality of these comprehensive reports and Ms. Mahasandana, Mr. Mochtar, Ms. Susiandri for their insightful Buff statement. We broadly share staff's assessment and recommendations. We wish to offer the following comments for emphasis.

**We commend the authorities for the sound macroeconomic frameworks, which have allowed for an accumulation of buffers in the period preceding the crisis, and the strong coordinated policy response implemented to contain the negative impact of the Covid-19 pandemic which underpinned the relatively favorable growth outlook** despite the harsh downturn in the first half of 2020. We agree nevertheless with staff on the huge uncertainty surrounding the recovery, given the protracted pandemic. *In this regard, could staff elaborate on the modalities of the on-going ambitious vaccination program in terms of financing and distribution?*

**We welcome the pragmatic approach of the authorities to maintain an accommodative policy stance until the health and economic recovery is fully entrenched, though we underline the risk of budget under-execution.** Premature withdrawal of accommodative policies could jeopardize the healing process of the domestic and global economy. We support staff's recommendation that the "flexibility to reallocate budget should be used as needed" as the Indonesian economic and financial conditions, with low inflation and large fiscal space, can accommodate larger spending, especially, during the given exceptional time. Given the budget under-execution in 2020, institutional capacities constraints including governance and rigidities on public spending should be addressed.

**Going forward, we welcome the plan to return to the budget deficit ceiling by 2023 and support staff's call for a medium-term fiscal strategy to preserve policy credibility.** We strongly encourage the authorities to preserve the needed public expenditures for development (education, health, infrastructure, social safety nets) and to focus their efforts on the low domestic revenue mobilization. It will also be critical to ensure that the measures in the omnibus law will not further increase tax revenue erosion. We welcome staff' technical assistance in this area. Regarding debt sustainability, we note the decreased exposure to external shocks due to the high reduction in nonresident participation in the local currency bonds markets, but also see in the selected issues paper that this would also increase bond yields. *Staff's precision on the overall evolution of the sovereign risk in 2020 as a result of these changes would be appreciated.*

**We broadly agree with staff's appreciation of the unconventional monetary policy undertaken by the Bank of Indonesia (BI) through a mix of policy rate cuts and government bond purchases in 2020. However, these measures should remain exceptional.** Indeed, BI's monetary policy response was among the first to react to the financial market shock. BI progressively increased the size of its APP, reaching about 2% of GDP in January 21, while many EM central banks already exited from QE. Given the correction in financial markets after March/April sell off and the current financing conditions, the financing of the government on the primary market, which is a sign of fiscal dominance as assessed in October 2020 GFSR, carries credibility risks for BI's monetary policy. **Therefore, we consider that the exceptional nature of monetary budget financing should be emphasized and made credible by specifying the criteria of the last-resort basis**. Some recommendations on the way Central Bank should communicate should be added to the report (details on the aim, size and duration of the purchase program).

**We welcome the authorities' commitment to pursue structural reforms.** Regulatory reforms such as the omnibus bill to enhance business climate and attract foreign investors are very welcome steps, and particular focus will be needed on their implementation, with both transparency and strong governance standards. On the financial sector, the deepening of the reform of financial markets will help mobilize national savings against the high level of external debt of the non-financial corporate sector.

**We strongly support staff's recommendation to consider further reforms regarding climate change adaptation and mitigation measures, especially reforestation and energy transition incentives.** The SIP on this issue was a very useful contribution to the policy debate, including on carbon pricing. Given Indonesia's high exposure to climate change risks and the significance of coal in the economy, we encourage staff to further detail the benefits of such measures for the Indonesian economy. As Indonesia prepares to update its NDC under the Paris Agreement ahead of the COP26, we strongly encourage the authorities to seize this opportunity to set more ambitious GHG emission reduction targets. We also welcome and encourage green finance efforts. We regret the postponement of the reform of energy subsidies due to the Covid crisis.

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GRAY/21/433

February 10, 2021

**Statement by Mr. Mozhin and Mr. Palei on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for their comprehensive report and the Selected Issues paper on the Indonesian economy, and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for the detailed statement further clarifying the authorities' views. Given that there are few, if any, disagreements between the authorities and staff, we limit our statement to several brief points.

The Indonesian economy is among many large EMDEs, which demonstrated enviable resilience to multiple adverse shocks caused by the COVID-19 pandemic. The authorities are fully aware of high human toll of the crisis and are appropriately focused on the speed of vaccination. We commend the authorities for securing enough vaccines to ensure timely and broad coverage of the population. We also commend the authorities for the bold and comprehensive policy package administered in response to the shocks in order to protect vulnerable population and to limit the damage to the economy.

According to staff, last year, the Indonesian economy contracted by about 2 percent, a rather mild contraction in comparison with most advanced economies and EMDEs, which embarked on a much more costly fiscal stimuli under much easier monetary and financial conditions. In the medium term, the economy is expected to return to high growth rates in the range of 5-6 percent annually.

In the fiscal area, the authorities suspended their fiscal rule and appropriately allowed the fiscal deficit to reach more than 6 percent of GDP. We support the authorities' intention to maintain a similar fiscal stance in 2021 and, depending on the data, to calibrate the speed of return to the fiscal rule in the medium term. We note that the public debt-to-GDP ratio in Indonesia is relatively low, and, in the baseline scenario, it is not expected to exceed the level of 40 percent of GDP. We agree with staff that the authorities have substantial fiscal space to address any emergencies and possible increase in liabilities, should such unfavorable circumstances arise. At the same time, we note many fiscal initiatives aiming at strengthening the structure of the tax system, improving administration, and making expenditures more efficient. We also agree with staff that, in this area, a comprehensive and consistent overall approach may offer additional benefits. A strong emphasis on the revenue side, in line with staff's specific recommendations in the report, might create necessary room for higher public sector investments and facilitate accumulation of human capital.

Flexible exchange rate and inflation targeting continued to work well under stress. We note that the current account deficit is contained. The authorities' strong policy frameworks should be instrumental in maintaining good market access even if international financial conditions tighten significantly. The authorities' pragmatic approach, including foreign exchange interventions, regulatory forbearance, and asset purchases, was in line with the philosophy of the Integrated Policy Framework currently being developed in the Fund. Going forward, the experience of the Indonesian authorities will contribute to the development of best practices and case studies by staff. We note that, after the challenging beginning of last year, foreign exchange reserves returned to a comfortable level, while inflation remained low and is likely to be within the targeted range in the foreseeable future. Overall, the authorities' policy response last year helped to further strengthen credibility of their framework.

*While staff referred to somewhat heightened FX risks in the non-financial sector, the authorities expect it to remain resilient. Given the authorities' strong track record in close cooperation with the Fund in identifying and monitoring the risks to financial and non-financial sectors, we believe that the differences in views between the authorities and staff should be rather marginal. Could staff elaborate on the scale of these differences and the main reasons for additional concerns in this area*?

Finally, we welcome the authorities' commitment to persevere with the implementation of structural reforms aimed at improving ease of doing business, streamlining excessive regulation, and deepening the digitalization of the economy.

With these remarks, we wish the Indonesian authorities success in facing challenges ahead.

GRAY/21/434

February 10, 2021

**Joint Statement by Mr. Andrianarivelo, Mr. Chodos, Mr. Mohieldin, Mr. Mouminah, Mr. Alhomaly, Mr. Alhosani, Mr. Herrera, Ms. Choueiri, Mr. Lischinsky, Mr. Sidi Bouna, and Ms. Alaqla on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

1. We thank staff for the comprehensive set of reports and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their informative Buff statement. We broadly concur with the thrust of staff appraisal and would like to emphasize the following points:

2. **We welcome the authorities' bold, comprehensive and coordinated policy response to the COVID-19 pandemic and its consequences**. The authorities appropriately focused on directing funds and resources to the healthcare system, vulnerable workers and households in the short term. As a result, lives and livelihoods were saved. The policy response also helped to preserve macro-financial and external stability through the downturn and a period of global market stress.

3. **We welcome staff's assessment that the Indonesian economy is positioned for recovery under currently appropriate accommodative monetary and fiscal policy settings.** We are reassured that the strong near-term policy support measures will be complemented by reforms, directed by the omnibus bill, to promote investment and create jobs to help mitigate the scarring effects of the pandemic. Here, we find the focus of the policy discussions on ways to unwind the exceptional, pandemic-related policy support in a balanced manner to be appropriate. We also take positive note of the ongoing initiatives in these areas, highlighted in the Buff statement.

4. **Indonesia has adequate fiscal policy space owing to prudent policies adopted in past years and strong policy frameworks**. In this connection, we welcome the concurrence between the authorities and staff that the fiscal stance that is envisaged for 2021, in addition to the envisaged increase in public investment, would help foster the recovery. The authorities' intention to return to the budget deficit ceiling by 2023 attests to their

commitment to the fiscal rules. That said, we agree with staff that this needs to be backed by a detailed medium-term fiscal strategy. In addition, we commend the authorities for their plan to continue enhancing revenue mobilization and improving spending efficiency to support medium-term fiscal adjustment, underpinned, if needed, by the Fund's capacity development programs. At the same time, we encourage the authorities to ensure implementation of the ongoing tax administration initiatives to protect low-income group and reduce poverty and income inequality.

5. **As part of the coordinated response to the pandemic, BI has appropriately pursued an accommodative monetary policy, utilizing all available policy instruments**. In this connection, we share staff's assessment that, in addition to lower policy interest rates, monetary budget financing as a backstop for fiscal policy is appropriate in the current exceptional circumstances. We take positive note of BI's prudent approach to buying government bonds in the primary market, as articulated in the Buff statement. The measure is temporary, consistent with good governance principles, and will be mindful of the impact on macroeconomic stability. We see merit of BI's plan to conduct bond purchases in 2021 on a last-resort basis under the market mechanism to help balance the benefits and risks of temporary monetary budget financing. Going forward, we encourage the authorities to step up their effort to develop and deepen the domestic bond market, with a wider domestic institutional investor base, to further support effective implementation of macroeconomic policies. We also encourage staff to provide support to the authorities in this area, if needed, and appreciate further elaboration on the topic in the next Article IV report.

6. **While the banking system remains stable following the financial sector and monetary policy responses, with a strong capital adequacy ratio and liquidity positions, close monitoring of bank asset quality is warranted**. Despite BI's liquidity injections into the banking system and the Financial Services Authority's (OJK) easing of prudential regulations, overall bank credit growth continued to slow due to a combination of demand and supply factors. We share staff's concern that banks might keep up tighter credit standards, given the possible larger-than-expected deterioration in asset quality. While staff recommends upgrading the loan guarantee program or adopting other targeted measures if credit continues to slump, *we would appreciate their views on the measures envisaged by the authorities to further ease a number of existing and new macroprudential policy instruments, as outlined in the Buff statement.* These include, notably, expanding the target and coverage of inclusive micro-, small-, and medium-sized enterprise (MSMEs) financing, providing incentives for banks that encourage the corporatization of MSMEs, and promoting the securitization of MSMEs loans. In addition, we support the authorities' efforts to promote economic and financial deepening and digitalization.

**7. The authorities are to be commended for the passing of the omnibus bill on job creation.** The newly established Indonesia Investment Authority aims at deepening access to finance, to boost investment and accelerate infrastructure projects and other priority sectors, which in turn will help generate new job opportunities and improve productivity, as noted in the Buff statement. We look forward to assessment of progress in the implementation of the omnibus bill on job creation in future reports.

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

GRAY/21/435

February 10, 2021

**Statement by Mr. Guerra and Ms. Moral Betere on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for an informative set of reports and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri, for their helpful buff statement. We generally share the staff's assessment and want to make the following comments for emphasis.

**Ongoing reforms aimed at promoting investment will underpin Indonesia's recovery.** We commend the authorities for their timely and comprehensive policy measures that have helped mitigate the impact of the pandemic on every front. We also welcome their ambitious vaccination program which aims to cover about two thirds of the population by March 2022. Going forward, policy support measures and ongoing reforms to promote investment and job creation will help to limit the scarring effects of the pandemic and will place the economy on a sustained growth path. We are aware of the high uncertainty surrounding the outlook and we note that staff projects persistent output level losses. *Could staff comment on whether sectoral reallocation and enhanced investment could mitigate more permanent effects on output?*

**We concur with staff that fiscal policy should remain flexible in the short-term. However, a longer-term return to its fiscal rules' commitment will be needed to preserve credibility**. The 2021 budget and the increase in public spending will help provide impulse to the economy and limit scarring. However, the return to the three percent budget ceiling will be critical to preserve credibility and eliminate the need for a Central Bank backstop. Given Indonesia's low ratio of tax revenue to GDP, this strategy should be backed by revenue measures. In this regard, we feel reassured by the authorities' commitment, stressed in Ms. Mahasandana's buff statement. Moreover, we believe that capacity development will be crucial in this respect and appreciate the info contained in table 12.

**We support the authorities' strategy to maintain monetary policy accommodation contingent on the inflation outlook.** Given the high liquidity in the domestic financial system, we also agree with the BI that additional cuts or liquidity provision to banks can have only limited effects in boosting demand. More so, fiscal policy should have a larger role going forward to support demand in case a downside scenario materializes.

**Possible changes to the BI Law should not limit the operational independence of the central bank.** We also share staff remarks that the introduction of broader objectives for the BI would need to acknowledge the limitations that monetary policy faces in the medium-term for both growth and employment goals. We notice the commitment of the authorities that future purchases of government bonds by the BI will be on a last-resort basis and with caps at prudent levels. Nevertheless, these budget financing operations can have detrimental impacts on monetary policy and central bank independence. We support staff's view that the authorities should consider enhancing the framework by clarifying the last resort criteria based on bond market conditions.

**We welcome the authorities' commitment to exchange rate flexibility and further development of the payment system.** Under the current exceptional circumstances, the exchange rate has a more predominant role to play as a shock absorber.

**The financial system has been resilient but continued monitoring of the loan portfolio of financial intermediaries is warranted.** We back staff call for a proactive management of credit risks in order to support the recovery and address vulnerabilities. We also welcome considering a set of reforms to financial regulation and financial markets, including a strong commitment to continue with the financial deepening agenda.

**We commend the authorities for their reform agenda and encourage continuing efforts towards a more inclusive and greener growth.** The Omnibus Bill and the recently created Nusantara Investment Authority are good steps towards boosting investment and productivity. We also praise the authorities for their efforts to promote financial deepening given Indonesia's high reliance on non-resident investors. We concur with staff that a medium-term Revenue Strategy should be a priority, as it will help enhance investment and meet the authorities' development goals. Furthermore, given Indonesia's heavy reliance on coal and its susceptibility to climate-related hazards, a comprehensive energy transition plan will be key, in addition to its several green initiatives.

With all these comments we wish the Indonesian authorities all the best.

GRAY/21/436

February 10, 2021

**Statement by Mr. Azal and Mr. Zaborovskiy on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for the well-written set of reports, including the very informative Selected Issues Papers, and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their comprehensive Buff statement. The COVID-19-related shock turned out to be more prolonged than initially anticipated, and the Indonesian economy is still adapting to the new reality. The uncertainty around the economic outlook is unprecedented, the full extent of scarring is unknown, and downside risks are significant. We commend the Indonesian authorities for the bold and well-coordinated policy response. However, contingency planning and continued vigilance remain warranted. We welcome the report's focus on the gradual policy recalibration from cushioning the immediate fallout from the crisis to facilitating an economic recovery and ensuring the credibility and efficacy of the post-crisis policy mix. It is encouraging that there are no major disagreements between staff and the authorities. Against this backdrop, **we concur with the thrust of staff's appraisal and policy recommendations** and provide the following comments for emphasis.

**Strengthening the medium-term fiscal framework while gradually withdrawing stimulus would ensure fiscal sustainability**. Staff assessed the authorities' fiscal response as timely and adequate, with an estimated fiscal impulse of 3.5 percent of GDP. We positively note the balanced composition of the fiscal package with support directed to low-income households, health care, social protection programs, and labor-intensive industries among others. Though fiscal policy remains accommodative in 2021, the authorities are committed to return to the deficit ceiling envisaged by the fiscal rule by 2023. We welcome these plans and echo staff's call for a growth-friendly revenue-based fiscal consolidation in the medium term, as the constant primary balance scenario shows a sustained increase in the debt level. The Indonesian authorities are well-advised to design and implement a Medium-Term Revenue Strategy, and we welcome their plans in this area highlighted in the Buff statement. We also stress the importance of fiscal risk management, considering a sizable package of loan guarantees, interest rate subsidies, and other quasi-fiscal measures deployed to mitigate the pandemic-related shock. *Could staff comment on their estimates of fiscal risks, as well as on fiscal risk management in Indonesia?*

**Unconventional monetary policy appeared to be instrumental but should be applied with caution**. Direct monetary financing of the deficit has not created inflationary pressures so far, and staff found the current monetary policy stance and combination of tools appropriate. However, the detailed analysis in Appendix V and in the SIP on Foreign Exchange Market and Instruments in Indonesia contains a word of caution that we share in full, especially considering possible lags to policies that may open arbitrage opportunities, potentially putting pressure on capital flows, exchange rate, and inflation. Ensuring the central bank's independence and maintaining exchange rate flexibility will continue to serve Indonesia well, and we welcome that the authorities share this view, as highlighted in the Buff statement. Regarding the External Sector Assessment, we welcome staff's conclusion that the external position in 2020 was broadly in line with the level implied by medium-term fundamentals and desirable policies, and the reserve position remains adequate under the baseline. Nevertheless, the estimated current account norm of -0.5 percent of GDP seems somewhat small, and the authorities forecast a current account deficit of around 1-2 percent of GDP in 2021 which is more consistent for a country with large infrastructure and development needs. *Staff may wish to comment.*

**Addressing pockets of vulnerabilities in the banking sector will help to ensure a lasting recovery**. We agree with staff's recommendation that credit risks in the banking sector should be carefully monitored against the nonfinancial corporate sector's stressed balance sheets. While the partial relaxation of loan classification provided some relief for borrowers, supervisors should track the health of restructured loans closely and ensure that credit risks are properly reflected and mitigated. Staff's advice to extend the loan guarantee program, should aggregate credit remain subdued, also requires a strong decision-making framework to be in place to avoid accumulation of contingent liabilities. Regarding the micro-level analysis of the nonfinancial corporate sector's vulnerabilities in Indonesia, outlined in the relevant SIP, we note that the Capital IQ database, used by staff, is biased towards large and publicly traded companies, possibly overestimating the system-wide risks. The authorities' regulatory decision to impose hedging requirement on corporate FX loans also plays a mitigating role. Nevertheless, we agree that vigilance and risk-based supervision are critical to proactively respond to the build-up of financial risks.

**The authorities' ambitious structural reform agenda is commendable.** We welcome the emphasis of staff's policy recommendations on inclusive job-rich growth, digitalization, and green economy. As outlined in the Buff statement, the authorities share these priorities and press ahead with business-friendly reforms, further opening the economy for FDIs. The reform agenda is comprehensive, and requires growing investments in infrastructure and human capital, including education, science, health care, social safety nets. Aligning these needs with the available financial envelope and further advancing the macroeconomic policy framework, including the climate policy toolkit, are critical to unleash Indonesia’s tremendous economic growth potential.

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GRAY/21/439

February 10, 2021

**Statement by Mr. Peter and Mr. Tola on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for their comprehensive reports and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their insightful Buff statement. A comprehensive policy response has been crucial to mitigate the economic impact of the pandemic and preserve macro-financial and external stability. Looking ahead, we take note of staff's assessment that Indonesia's economy is in a good position for a continued gradual recovery, although the outlook remains uncertain. Progress with reforms is indispensable to mitigate scarring effects from the pandemic.

**An expansionary fiscal stance remains warranted to underpin the recovery.** We share staff's assessment that the envisaged moderately expansionary fiscal stance implied by the 2021 budget is adequate. Given that Indonesia's public debt ratio is projected to remain below the 60 percent threshold, the authorities have some room left for further stimulus, should downside risks materialize. At the same time, we welcome the authorities' commitment to return to the deficit ceiling and start rebuilding fiscal buffers once economic growth is back on a more sustainable footing. A detailed medium-term fiscal strategy, as suggested by staff, would strengthen the credibility of this commitment and should be backed by improved revenue mobilization. In line with its upper middle-income country status, Indonesia has scope to enhance the tax-to-GDP ratio.

**The policy mix of Bank Indonesia (BI) is appropriate for the time being.** BI's policy rate cuts and ample liquidity provision were important to safeguard the normal functioning of financial markets. Given the risk of a prolonged challenging market environment, it remains key to respond to potential renewed volatilities in a timely manner. The temporary local-currency government bond purchases have also supported stability and helped to avoid bond market disruptions. Considering the macro-financial tradeoffs related to this exceptional policy measure, we support staff's view that it should be guided by well-defined last resort criteria. We share staff's view that the BI's operational independence has served Indonesia well and second their call to avoid any changes to the central bank law that would limit this independence.

**The crisis management and resolution frameworks should be strengthened**, as recommended in the 2017 FSAP. Indonesia's banking system remains well-capitalized and NPL ratios have deteriorated only marginally, despite challenging conditions during the pandemic. Nevertheless, we take note of staff's assessment that risks of a deterioration in asset quality have increased and some smaller banks are facing capital adequacy and deposit outflow problems. The established crisis coordination committee is an important mechanism to strengthen resilience and ensure crisis preparedness. Similarly, efforts to improve financial deepening are welcome and should continue.

**Structural reforms to boost productivity and job creation remain important.** Past efforts to improve the business climate have clearly yielded some success. The newly enacted omnibus bill on job creation has a strong potential to improve the ease of doing business in Indonesia, attract investment, create new jobs, and stimulate the economy. A careful implementation of the bill will be key to harness the full potential of the reforms while preventing short-term social costs. We also see merit in the ongoing reforms to advance digitalization, and we encourage the authorities to continue these efforts.

GRAY/21/442

February 10, 2021

**Statement by Mr. Bhalla and Ms. Indraratna on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

1. We thank staff for the comprehensive set of reports and Ms. Mahasandana, Mr. Mochtar and Ms. Susiandri for the helpful buff statement. We broadly concur with the staff appraisal and recommendations and provide remarks for emphasis.

2. **Indonesia has responded to the COVID-19 pandemic with a strong policy package and the economy is positioned to recover**. Prior to the pandemic, Indonesia enjoyed stable economic growth with favourable macroeconomic indicators underpinned by solid policy frameworks, including fiscal rules and an inflation targeting regime, while the banking system was stable buttressed by regulations mostly in line with Basle III. However, containment measures associated with the COVID-19 pandemic triggered an economic downturn during the first half of 2020 with real GDP growth in negative territory. To mitigate the adverse impact of the COVID-19 shock, the authorities implemented a comprehensive policy package temporarily deviating from the key pillars of the country's macroeconomic frameworks that have underpinned the strong economic performance in recent years. The policy response has cushioned the impact of the pandemic. Economic activity rebounded in the third and fourth quarters of 2020 with higher government consumption and net exports, and the economy is expected to further strengthen in 2021 and 2022.

3. **We welcome the authorities' efforts at limiting the adverse social and economic effects of the pandemic to protect lives and livelihoods.** We note positively key investments made towards strengthening the health system and increased social assistance, including food aid, cash transfers and unemployment benefits, together with targeted support to hard-hit industries. Higher spending on social safety net measures is particularly important in the light of Indonesia's near double digit poverty rate, which is relatively high in comparison to its peers in the region. We welcome the ambitious vaccination program rolled out in January 2021 with the goal of inoculating about two-thirds of the population by March 2022. We also welcome the

accommodative monetary policy stance adopted by Bank Indonesia and the "Triple Intervention" policy followed to stabilize domestic financial markets.

4. **While the temporary deviation of the strong macroeconomic policy frameworks that have hitherto supported the country's economic performance is a necessity given current circumstances, we encourage the authorities to revert to these frameworks building on medium term measures.** We observe that the pandemic response required the temporary suspension of two key pillars - the deferral of the budget deficit ceiling under the fiscal rules framework and the removal of the ban on purchases of government bonds by Bank Indonesia in the primary market. While the higher budget deficit envisaged for 2021 incorporating increased public investment should help in the economic recovery, we welcome the commitment of the authorities to return to the envisaged budget deficit target under the fiscal rules by 2023. We concur with the staff view that going forward, the Indonesian authorities need to unwind the exceptional pandemic related policy support in a balanced manner to preserve credibility and safeguard Indonesia's strong policy track record. As suggested by staff, we agree that an explicit medium-term fiscal strategy, backed by revenue measures, would add to the credibility of the commitment to restore fiscal rules while resorting to monetary financing only as temporary measure would help manage risks to the credibility of the monetary policy framework.

5. **The authorities must reduce the reliance on volatile nonresident portfolio flows and address vulnerabilities associated with the domestic government bond market.** While the high share of nonresident participation in the local currency government bond market has benefitted the country by improving liquidity in the government securities market and lowering funding costs, it has also increased the country's vulnerability to sudden capital outflows reducing the resilience of the external sector. Such outflows can amplify domestic disorderly market conditions while leading to higher issuances of hard currency bonds thereby increasing foreign currency debt. Going forward, we encourage the authorities to explore other avenues of financing such as revenue mobilization, deepening domestic bank and nonbank financial markets and attracting FDI to reduce reliance on portfolio inflows.

6. **Indonesia must address a key structural challenge - low financial inclusion and limited access to finance - to sustain its growth momentum and achieve inclusive growth in the medium term.** We note that almost half of the population in Indonesia is without a bank account while data also indicates that nearly 6 percent of the global unbanked adults reside in Indonesia. Such numbers point to the need to address this issue on a priority basis. The limited access to financial inclusion will exacerbate the adverse impact of the COVID-19 shock on the lower income population and small businesses. We concur with the staff view that digitalization would provide an opportunity to close the country's gap in financial inclusion and bank financing.

7. With these remarks, we wish the Indonesian authorities success in all their future endeavours.

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GRAY/21/444

February 10, 2021

**Statement by Ms. Riach and Mr. Clark on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for the good set of papers and Ms. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their comprehensive Buff statement.

Indonesia came into the crisis with a strong track record of prudent macroeconomic policy, and we welcome the authorities comprehensive and coordinated policy response which has successfully mitigated the economic impacts of the crisis. Early pandemic containment measures triggered an economic downturn, but with gradual reopening a nascent recovery has emerged. Continued strong policy support will likely be necessary to ensure the recovery. However, as for so many countries, the economic outlook remains highly uncertain due to the possibility of a protracted pandemic and risks related to vaccine distribution. Wider reforms to address structural challenges and promote investment will be required to mitigate any scarring effects and put the economy on a path to a greener and more inclusive recovery.

**We welcome the measures taken by the authorities to support the economy during the crisis and agree that, given the available fiscal space, further measures should be considered if downside risks materialize.** A moderately expansionary fiscal stance focused on increased public investment, including on infrastructure and social safety nets is appropriate. Whilst the temporary relaxation of the budget ceiling helped mitigate the impact of the pandemic, we welcome the recommitment to the fiscal rule by 2023. We agree with staff that a detailed medium-term fiscal strategy would add to the credibility of the commitment to restore the fiscal rules. In addition, a medium-term government revenue strategy should remain a priority. Key focus areas should include broadening the tax base, enhanced compliance, greater digitalization and eliminating distortionary VAT exemptions.

**Pursuing monetary accommodation through a combination of lower policy interest rates, allowing for greater exchange rate flexibility, and government bond purchases by Bank Indonesia (BI) is appropriate in the current exceptional circumstances.** This has helped the orderly functioning of financial markets and to manage volatile capital flows. However, it will be important to maintain clear boundaries between fiscal and monetary policy; phasing out the burden sharing arrangement and safeguarding the Central Bank's independence. We agree that monetary budget financing should be guided by a framework to manage risks, including clear delineation for its temporary use and any bond purchases should be based on last resort principles. We welcome the recommendation that the financial sector omnibus bill should not limit BI's operational independence or set unrealistic monetary policy objectives.

**Whilst the financial sector policy response has increased liquidity and kept the banking system stable, additional measures may be required and asset quality should be monitored closely.** The authorities should be ready to undertake targeted policy steps if bank lending to the private sector does not rebound with the recovery. This could include provisioning requirements and incentives for banks to use their capital buffers, additional measures to protect viable firms and changes to crisis management and resolution frameworks. Proactive loan loss provisioning under the partially relaxed loan classification rules will help manage any deterioration in asset quality. We agree that efforts to promote financial sector deepening should be accelerated.

**We welcome staff's coverage of climate issues, including in the informative SIP. Given Indonesia's susceptibility to climate change related natural disasters, and the current reliance on fossil fuels, we agree that a comprehensive transition plan is essential to support a greener recovery.** The plan should include greater support for building renewable energy generation capacity, reducing reliance on coal, and reforms to energy subsidy schemes. Further progress in the monitoring and execution of adaptation plans to increase the resilience to climate change would be desirable, given the high exposure to natural disasters and climate related risks.

GRAY/21/453

February 11, 2021

**Statement by Mr. Hosseini and Mr. Badsi on Indonesia**
**(Preliminary)**
**Executive Board Meeting 21/16**
**February 12, 2021**

We thank staff for the comprehensive set of reports and Mr. Mahasandana, Mr. Mochtar, and Ms. Susiandri for their informative Buff statement.

The Indonesian economy had been experiencing sustained economic growth for many years before being hard hit by the dual shock of the Covid-19 pandemic and the sharp downturn in international prices. Indonesia's strong macroeconomic fundamentals and the authorities' bold policy response at the onset of the crisis cushioned the impact and the economy began to gradually recover in the second half of 2020. The supply shock brought inflation down below the central bank target rate and financial conditions began to improve in the latter part of the year. As elsewhere in the world, greater mobility and successful vaccine rollout will be the key drivers of the recovery in the near term. Significant downside risks however remain, including a prolonged pandemic and virus mutation as well as long term scarring effects both in the real economy and in financial markets. We note positively the converging views between the authorities and staff on the macroeconomic outlook and risks, and staff assessment of Indonesia's external position.

We are of the view that as the recovery takes hold, a properly calibrated fiscal and monetary policy mix would be central for a rapid return to pre-crisis growth. It is comforting that there is still some fiscal room to call on should downside risks materialize. **We broadly agree with the thrust of the staff appraisal and would like to limit our comments to the following for emphasis**.

We note with satisfaction the authorities' determination to preserve the integrity of the fiscal policy framework and their commitment to bring the budget deficit back to the 3 percent of GDP ceiling by 2023. Without risking policy credibility, a calibrated fiscal consolidation is advisable not to jeopardize the recovery and to safeguard the country's development needs, including infrastructure, human capital and social safety nets. *We would welcome staff* *comments on the nature and composition of unspent budget allocation in 2020 that contributed to undershooting of the deficit target.* We see merit in the authorities' three-pronged approach to promote transparency and accountability related to the Covid-19 spending.

The banking system is well capitalized, liquid and profitable, but there are pockets of vulnerability, including sluggish credit activity and growing risks of asset quality deterioration that call for enhanced financial market regulation and reforms. While looking forward to the new financial sector law, the authorities are encouraged to guard against potential fallout on the banking sector by deploying appropriate policy support measures to revive private sector credit growth. The authorities should be commended for their timely adjustment of central bank's policy mix combining rate cuts as well as greater exchange rate flexibility to which the authorities have renewed their commitment. *We note that while central bank financing of the budget has increased, and financial conditions have eased, the headline inflation has fallen below the central bank's target rate. Staff comments will be appreciated.*

Against a backdrop of favorable demographics, the authorities have correctly focused on addressing the impediments to job-creating investment and productivity boost, but progress has been slow in some areas. We agree with staff that the medium-term revenue strategy is at the heart of macro-structural reforms to promote inclusive post-pandemic growth. It is also important to push ahead with digital transformation to bridge the gap in financial inclusion and access to finance, areas where Indonesia seems to be lagging its peers. While recognizing the authorities' proactive efforts to tackle climate change issues, in our view further strides are needed to strike a balance between promoting development and a greener economy, and to speed up reforms of energy subsidies and energy pricing mechanism.

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

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.

## Indonesia

Responses to Technical Questions Posed by Executive Directors in Advance of EBM/21/16—February 12, 2021

*Staff's responses to technical and factual questions are below. Broader policy questions in the areas of the policy response to the pandemic will be addressed in staff's oral intervention at the Board meeting.*

### Outlook/Risks

**1. We understand that the economy is expected to rebound with the easing of containment measures. At the same time, current growth projections are subject to heightened risks and seem to build inter alia on a fast deployment of effective vaccines. In this context, we would like to know staff's assessment on the likely recovery path if this particular assumption would turn out to be wrong.**

- Under plausible assumptions, the vaccination rollout will likely take at least 2-3 quarters to have significant macroeconomic effects. Staff projections for 2021 GDP growth thus factor in only a small boost to economic activity from the vaccination rollout. A slower deployment of vaccines would likely lead to slower growth in 2022 than the 6 percent currently projected by staff.

**2. Does staff already have preliminary estimates for Q4? Furthermore, we wonder whether non-conventional real-time indicators have already been used or considered by the authorities to monitor the economy, given the time lag of official data?**

- 2020Q4 GDP data were published on February 5 and show a somewhat slower pace of recovery than staff projected. The year-on-year real GDP growth rate in Q4 was released at -2.2 percent vs. staff projections of -1.7 percent y/y (but still up from -3.5 percent y/y in Q3).

- Both the authorities and staff have increasingly relied on timely high-frequency indicators to monitor economic activity, notably mobility indicators that are correlated with measures of economic activity.

**3. Could staff clarify if the delays in vaccine rollout are the same delays cited for health spending and indicate what the main obstacles to faster vaccine rollout are?**

- There are additional obstacles to the vaccine rollout that relate to logistical challenges. Given the country's size and infrastructure, transportation is generally slower and more expensive in Indonesia compared to other countries, especially for goods such as vaccines that must be refrigerated. Moreover, while the national economic recovery program (PEN) supports the purchase of vaccines, these other costs are not borne by the Ministry of Health. The cost of the vaccination program is reportedly estimated around USD5.2 billion.

4. **We are also interested if staff have a view on the Indonesia strategy to prioritize vaccinating working age adults over the elderly (though the latter are more vulnerable), with the aim of reaching herd immunity fast and reviving the economy?**

- As staff understand it, an important reason behind this strategy was that the Sinovac vaccine had not been tested on elderly people, but only on working-age adults. However, as circumstances have evolved, there is now a stronger focus on vaccinating the elderly.

5. **In this regard, could staff elaborate on the modalities of the on-going ambitious vaccination program in terms of financing and distribution?**

- Indonesia's vaccination program aims to inoculate about 182 million people out of a population of about 270 million (i.e., about two-thirds). The Ministry of Health's Director General of Disease Prevention and Control has issued technical guidelines for the vaccination program, which is estimated to last from January 2021 to March 2022. President Joko Widodo announced that the vaccine will be free for everyone.

6. **Could staff comment on whether sectoral reallocation and enhanced investment could mitigate more permanent effects on output?**

- Measures facilitating sectoral reallocation could lower the scarring effects by reducing unemployment duration (the more time spent out of work, the more workers' skills will deteriorate). Similarly, measures facilitating investment would avoid a sharp reduction of capital stock growth that would depress productivity growth. Following historical evidence, we project persistent output losses in level terms. Most deep recessions in both advanced and emerging countries have had protracted scarring or hysteresis effects—economic activity generally fails to return to its pre-recession trend. The successful implementations of the ongoing structural reforms in Indonesia could help mitigate scarring effects.

**Fiscal Policy**

7. **We welcome the inclusion of Appendix IV in the staff report. But the political and implementation difficulties with broad based tax reform should not be underestimated, and in this regard, we wonder what further efforts might be needed from the Fund or other partners to provide ongoing technical assistance to the authorities. Staff comments are welcome.**

- IMF has completed several TA projects on tax policy and revenue administration in the past, including comprehensive TA on how to design and implement a medium-term revenue strategy that resulted in a book co-authored by Indonesian authorities. Going forward, the IMF stands ready to provide further CD on the subject, and the team is engaging with the authorities to explore areas of interests. Future CD projects under exploration include a stock taking exercise for the initiatives taken by authorities so far and updating the MTRS to consider new priorities, given the economic transformation after the COVID-19 pandemic. Follow-ups on specific aspects of the reform proposals could also be undertaken if deemed useful by the authorities. Possible options could encompass workshops on MTRS that would allow the authorities to learn from other countries that have designed and implemented MTRS.

**8. We understand from the report that the Fund stands ready to provide further capacity development in the area of revenue mobilization. Can staff comment on plans for further technical assistance?**

- Please see response to question 7.

**9. Given the high share of public debt help by non-residents, could staff comment on how fiscal space could evolve in a scenario with deteriorating risk sentiment and tighter global financial conditions?**

- Several factors, including current and future expenditure and revenue, affect fiscal space, making it difficult to predicate the evolution of fiscal space solely on public debt ownership. Nevertheless, worsening risk sentiment and tighter global financing conditions would result in higher borrowing costs and worsen debt dynamics, everything else equal. Higher non-resident ownership is a vulnerability that could limit fiscal space, as there could be an adverse feedback loop between bond sales, exchange rate depreciation, and capital outflows. Higher domestic ownership of government debt is considered safer because domestic investors tend to optimize expected returns in domestic currency. That said, Indonesia has significant room to increase revenue mobilization that could safeguard its fiscal space in the face of tightening global market conditions. Moreover, higher revenue mobilization would reduce the reliance on external financing and could lead to lower borrowing costs.

**10. We also stress the importance of fiscal risk management, considering a sizable package of loan guarantees, interest rate subsidies, and other quasi-fiscal measures deployed to mitigate the pandemic-related shock. Could staff comment on their estimates of fiscal risks, as well as on fiscal risk management in Indonesia?**

- As part of the National Economic Recovery Program, the authorities have announced credit guarantees, interest rate subsidies and loan restructuring funds amounting to around 1½ of GDP. But it is too early to provide an assessment of the fiscal risks stemming from this program because it has not been fully implemented yet (e.g., the loan guarantee program had little take-up due to design issues) and potential fiscal risks will depend on the portfolio of beneficiaries, and their survival after the crisis. Regarding fiscal risks management, IMF is providing TA to help authorities better manage fiscal risks, including from PPP.

**11. Could staff provide an estimate of the revenue that would be raised through the relatively modest tax measures identified by the authorities to date?**

- The authorities have announced some tax administration (risk-based audits, IT development, and use of taxpayer bank data to support audits) and tax policy measures (increase of tobacco excise rate, imposition of plastic bag excise in 2021 budget, extension of VAT to cross border electronic transaction) that could have positive revenue effects, other recently adopted measures (lower income taxes for some taxpayers, broader input VAT credit eligibility, investment tax incentives and reductions in CIT rate) are likely to offset any revenue gain. Staff do not expect substantial revenue increase in the absence of a comprehensive reform that broadens tax bases, reduces distortion and special regimes, and improves compliance.

**12. We would welcome staff comments on the nature and composition of unspent budget allocation in 2020 that contributed to undershooting of the deficit target.**

- Preliminary budget execution data suggest that revenue mobilization reached 96 percent of target while spending execution amounted to around 93 percent of budget allocation in 2020. Across spending lines, available data suggest that goods and services recorded the lowest execution rate, but definitive assessment requires further budget execution data that are not available yet.

**Monetary and Exchange Rate Policy**

**13. We note that while central bank financing of the budget has increased, and financial conditions have eased, the headline inflation has fallen below the central bank's target rate. Staff comments will be appreciated.**

- Headline inflation has stayed below BI's target band (3±1 percent) since June 2020, mainly reflecting a strong harvest leading to lower food prices, weak domestic demand due to the impact of the pandemic, and more recently a decline in administered prices on a month-on-month basis. With the economic recovery underway, supported by the accommodative macroeconomic policy stance, inflation is expected to pick up gradually to within the target band.

**External Sector**

**14. We very much welcome the implementation of the Regional Comprehensive Economic Partnership, which is an historic milestone. We would appreciate staff's comments on prospects for Indonesia.**

- The implementation of the Regional Comprehensive Economic Partnership (RCEP) in Indonesia, together with other ongoing and planned reforms, including the omnibus bill, have the potential to promote export competitiveness and contribute to attracting more FDI to Indonesia. More specifically, the RCEP would contribute to Indonesia's integration in global value chains together with other regional partners. In addition, the reduction in trade barriers should also stimulate the increase in FDI flows to Indonesia.

- In discussions during the Article IV consultation, the Indonesian authorities noted that they estimate that the implementation of the RCEP would boost economic efficiency and improve business climate, leading to an increase of 0.5 percent of GDP in 2021-2022. They also mentioned that they project that the RCEP would translate into an 11 percent increase in exports and a 22 percent in investment over the next 4 years.

15. **Regarding the External Sector Assessment, we welcome staff's conclusion that the external position in 2020 was broadly in line with the level implied by medium-term fundamentals and desirable policies, and the reserve position remains adequate under the baseline. Nevertheless, the estimated current account norm of -0.5 percent of GDP seems somewhat small, and the authorities forecast a current account deficit of around 1-2 percent of GDP in 2021 which is more consistent for a country with large infrastructure and development needs. Staff may wish to comment.**

- As discussed in the staff report, the external assessment for 2020 is highly uncertain given the lack of full-year data for 2020 and the COVID-19 crisis. A complete analysis will be provided in the 2021 External Sector Report. Staff projection is aligned with the authorities' view that the current account deficit will increase in 2021, reflecting the economic recovery and higher imports. Staff projection of a current account deficit of 1.5 percent of GDP is within the authorities range of 1-2 percent of GDP.

16. **Going forward, we welcome the plan to return to the budget deficit ceiling by 2023 and support staff's call for a medium-term fiscal strategy to preserve policy credibility. We strongly encourage the authorities to preserve the needed public expenditures for development (education, health, infrastructure, social safety nets) and to focus their efforts on the low domestic revenue mobilization. It will also be critical to ensure that the measures in the omnibus law will not further increase tax revenue erosion. We welcome staff' technical assistance in this area. Regarding debt sustainability, we note the decreased exposure to external shocks due to the high reduction in nonresident participation in the local currency bonds markets, but also see in the selected issues paper that this would also increase bond yields. *Staff's precision on the overall evolution of the sovereign risk in 2020 as a result of these changes would be appreciated*.**

- The reduction in nonresident participation in the local currency bonds markets has contributed to a reduction of vulnerabilities, but the reliance on foreign investors remains sizable and exposes the Indonesian economy to external financial shocks. Global financial conditions tightened after the COVID-19 crisis started, and government bond yields increased in Indonesia and across all EMs, with market pressures being the sharpest in March 2020. Since then, government bond yields have declined as external pressures started to ease and liquidity was restored in bond markets, partly thanks to the substantial increase in domestic banks holdings of local currency government bonds, which more than compensated for the reduced holdings by nonresident investors.

**Financial Sector Policy**

**17. Have the authorities, to staff's information, indicated intentions to specific measures like extending the guarantee scheme in case credit supply remains subdued despite an economic recovery?**

- The authorities have indicated intentions to provide further support aimed to expand credit through various measures. The Financial System Stability Committee has mapped out sectors that are capable of expanding amid the pandemic and those that need assistance to survive, and it is discussing a joint policy package of the agencies involved to aid these sectors. In terms of the credit guarantee scheme, staff are not aware of any plan to extend guarantees past November 2021.

**18. Could staff clarify the implications of BI rescinding the usual requirement to reclassify restructured loans to substandard – do staff have a view on the viability of the restructured loans?**

- The partial relaxation of loan reclassification standards until March 2022 was intended to help the adjustment to pandemic-related disruptions. The success of such policy requires tighter risk management—e.g., banks need to ensure debtor's viability throughout the relaxation period and provision accordingly. Anecdotal evidence from commercial banks suggested that many restructured loans have started seeing repayments. However, there is significant uncertainty around the economic outlook and substantial heterogeneity in loan viability across sectors.

**19. 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?**

- Staff do not have information on the authorities' plan in this area. Bank Indonesia introduced a set of prudential requirements in 2014 (on hedging, liquidity provision, and minimum rating) targeted to corporations seeking external debt, which, in staff's view, helped mitigate FX risks in the nonfinancial corporate sector. Policy priorities should be on implementing the FSAP recommendations on crisis management and resolution frameworks and deepening financial markets—as envisaged by the authorities.

**20. While staff recommends upgrading the loan guarantee program or adopting other targeted measures if credit continues to slump, we would appreciate their views on the measures envisaged by the authorities to further ease a number of existing and new macroprudential policy instruments, as outlined in the Buff statement. These include, notably, expanding the target and coverage of inclusive micro-, small-, and medium-sized**

**enterprise (MSMEs) financing, providing incentives for banks that encourage the corporatization of MSMEs, and promoting the securitization of MSMEs loans.**

- Staff welcome the authorities' further efforts to boost MSMEs financing. The authorities have taken prompt actions to encourage loan rollovers through regulatory forbearance and credit guarantees, and provided cheap lending to banks. Those policies have helped but may not be enough, given banks' reluctance to take on risk. Securitizing MSMEs loans and selling to the market can achieve broader risk sharing with the private sector. However, given that Indonesia's domestic financial markets are still developing, it may take some time before the full benefit of securitization of MSMEs loans will materialize.

**Structural Policy**

**21. Chapter 3 of the October 2020 WEO describes a policy mix of green investments combined with carbon pricing that would enable the transition to a zero-carbon economy at only moderate output costs. We would be interested in a follow-up analysis by the Fund tailored to countries with development needs**

- With the mainstreaming of climate change issues, there will be further work for Indonesia and other countries, and this topic will be addressed in this context.

**22. 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.**

- Staff understand that an important motivation for establishing the Nusantara Investment Authority (recently renamed as "Indonesia Investment Authority") is to make infrastructure financing more equity-based, especially from foreign investors. That said, details on its operations and structure have yet to be disclosed.

**23. 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?**

- Women are likelier to work in the informal sector, where companies have less access to government programs and capital to help survive the pandemic. In addition, industries such as retail and restaurants, which are more likely to employ women, have been affected by mobility restrictions. On the other hand, anecdotal evidence suggests that women have been able to increase their participation in gig economy jobs, such as delivery and online sales. However, we are not aware of programs aimed at addressing differences in the gender impact of the pandemic on the Indonesian labor force.

**24. While staff referred to somewhat heightened FX risks in the non-financial sector, the authorities expect it to remain resilient. Given the authorities' strong track record in close cooperation with the Fund in identifying and monitoring the risks to financial and non-financial sectors, we believe that the differences in views between the authorities and staff should be rather marginal. Could staff elaborate on the scale of these differences and the main reasons for additional concerns in this area?**

- In staff's view, the authorities have appropriately responded to the heightened FX risks in the nonfinancial sector in the early 2020, including by adopting a "triple intervention" strategy in the spot and domestic non-deliverable forward FX markets, and the local currency bond markets. Nevertheless, the shallow FX market and the resulting FX exposures of nonfinancial firms remain structural concerns, and staff welcome the authorities' efforts to deepen financial markets in general and the FX market in particular.

# CONSTITUENCY CODES

OEDAE
Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF
Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG
Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP
Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC
China

OEDCE
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO
Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC
Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF
France

OEDGR
Germany

OEDIN
Bangladesh, Bhutan, India, and Sri Lanka

OEDIT
Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA
Japan

OEDMD
Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI
Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE
Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO
Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU
Russian Federation and Syrian Arab Republic

OEDSA
Saudi Arabia

OEDST
Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ
Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK
United Kingdom

OEDUS
United States