Press Release No. 18/36
FOR IMMEDIATE RELEASE
February 6, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2017 Article IV Consultation with Indonesia

On January 10, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Indonesia.

The Indonesian economy has continued to perform well. Real GDP growth accelerated slightly to 5.1 percent in Q3:2017 from 5 percent in 2016 and H1:2017, led by robust exports and fixed investment. The output gap is estimated at –0.5 percent of GDP. Inflation fell to 3.3 percent in November, at the lower half of the official target band (4±1 percent), due to the slightly negative output gap and stable food prices, which more than offset the increase in electricity prices earlier in the year due to improved targeting of subsidies. Core inflation has remained stable at around 3 percent. The current account deficit declined to 1.5 percent of GDP in Q1-Q3:2017 due to higher exports. However, credit growth remains slow reflecting both weak demand and banks' tight lending standards.

The economic outlook is positive. Real GDP growth is projected at 5.1 percent in 2017, rising gradually to 5.6 percent over the medium term, led by robust domestic demand. Inflation is projected to remain around 3.5 percent, within the official target range, due to stable food and administered prices, and well anchored inflation expectations. The current account deficit is expected to remain contained at near 2 percent of GDP due to firm commodity prices and robust exports. Risks to the outlook remain tilted to the downside, including spikes in global financial volatility, uncertainty around U.S. economic policies, lower growth in China, and geopolitical tensions. Global growth and commodity prices could surprise on the upside. Domestic risks include tax revenue shortfalls and larger fiscal financing needs due to higher interest rates.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors commended the authorities for the sound economic performance, including stable economic growth, moderate inflation, and a modest current account deficit, which have contained systemic risks. They noted that the economic outlook is favorable, but encouraged the authorities to stay vigilant against risks, including from volatile capital flows. Directors stressed that achieving higher potential growth would help create jobs for the young and growing labor force. The priority should be on a self-reinforcing and well-sequenced fiscal-structural reform package that mobilizes revenues to finance development spending and supports structural reforms in the product, labor, and financial markets.

Directors welcomed the focus of the near-term policy mix on supporting growth while preserving stability. They noted that fiscal adjustment in 2018 should be gradual to protect growth while rebuilding fiscal buffers. They agreed that the current stance of monetary policy is appropriate for targeting price stability and supporting growth, and recommended further enhancing monetary transmission. Directors welcomed the authorities' commitment to maintain exchange rate flexibility and to limit foreign exchange intervention to preventing disorderly market conditions.

Directors commended the authorities' efforts to rebalance public expenditure toward priority sectors. They encouraged early implementation of a medium-term revenue strategy to finance growth-enhancing priority spending and structural reforms, as well as reduce the heavy reliance on external financing. This strategy should include frontloaded tax policy and administration reforms. Short-term measures to arrest the fall in the tax ratio should also be considered.

Directors welcomed the progress achieved in boosting infrastructure investment. They stressed that the pace of infrastructure development should be aligned with available financing and the economy's absorptive capacity. Priority should be given to financing infrastructure with domestic revenue, as well as greater private sector participation, including foreign direct investment. This would limit the buildup of corporate external debt and contingent liabilities from state-owned enterprises (SOEs). Financial deepening through developing a national strategy for capital market development would also support infrastructure investment.

Directors commended the authorities' efforts to streamline regulations. They noted that future efforts should target areas with the largest potential gains for the economy, such as reducing state control, rationalizing the role of SOEs, and greater coordination of regulations among ministries and regional governments.

Directors emphasized that improving education and easing labor market regulations would support employment. They underscored the need to raise the level and quality of education spending, streamline job protection regulations, and improve vocational training and job placement services. Enhancing female labor participation would also be important.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors took positive note of the authorities' efforts to strengthen financial oversight and crisis management. Going forward, they encouraged greater focus on the areas identified by the FSAP where further improvement is needed, including clarification of institutional mandates, improving supervision of financial institutions and financial conglomerates, adopting a more rigorous approach to credit risk, and continuing to strengthen the crisis management framework. Continuing to monitor foreign exchange and external debt vulnerabilities of corporates will also be important.

Indonesia: Selected Economic Indicators

	2013	2014	2015	2016	2017 Prel.	2017 Latest outturn		2018 Proj.
Real GDP (percent change)	5.6	5.0	4.9	5.0	5.1	5.0	Q1-Q3	5.3
Domestic demand	4.7	5.0	4.2	4.6	4.7	4.5	Q1-Q3	5.1
Of which:								
Private consumption 1/	5.5	5.3	4.8	5.0	5.0	5.0	Q1-Q3	5.0
Government consumption	6.7	1.2	5.3	-0.1	2.1	1.3	Q1-Q3	2.0
Gross fixed investment	5.0	4.4	5.0	4.5	6.0	5.8	Q1-Q3	6.2
Change in stocks 2/	-0.6	0.5	-0.6	0.3	-0.2	-0.3	Q1-Q3	0.0
Net exports 2/	0.6	-0.2	1.0	0.1	0.7	0.8	Q1-Q3	0.3
Saving and investment (in percent of GDP)								
Gross investment 3/	33.8	34.6	34.2	34.3	34.0	...	...	34.1
Gross national saving	30.7	31.5	32.1	32.5	32.4	...	...	32.3
Prices (12-month percent change)								
Consumer prices (end period)	8.1	8.4	3.4	3.0	3.3	3.3	Nov.	3.6
Consumer prices (period average)	6.4	6.4	6.4	3.5	3.8	3.8	Jan.-Nov.	3.4
Public finances (in percent of GDP)								
Central government revenue	15.1	14.7	13.1	12.5	12.0	8.1	Jan.-Sept.	12.2
Central government expenditure	17.3	16.8	15.7	15.0	14.7	10.1	Jan.-Sept.	14.7
Of which: Energy subsidies	3.2	3.2	1.0	0.9	0.7	0.4	Jan.-Sept.	0.7
Central government balance	-2.2	-2.1	-2.6	-2.5	-2.7	-2.0	Jan.-Sept.	-2.5
Primary balance	-1.0	-0.9	-1.2	-1.0	-1.0	-0.8	Jan.-Sept.	-0.9
Central government debt	24.8	24.7	27.4	28.3	29.0	...	...	29.5
Money and credit (12-month percent change; end of period)								
Rupiah M2	9.4	13.5	9.0	11.7	12.0	9.8	Jul.	...
Base money	16.7	11.6	3.0	4.6	9.8	7.2	Jul.	...
Private Sector Credit	20.0	11.8	10.3	7.7	8.6	7.5	Sept.	10.3
One-month interbank rate (period average)	5.8	7.5	7.2	6.9	...			...
Balance of payments (US$ billions, unless otherwise indicated)								
Current account balance	-29.1	-27.5	-17.5	-16.8	-16.9	-11.5	Q1-Q3	-20.4
In percent of GDP	-3.2	-3.1	-2.0	-1.8	-1.7	-1.5	Q1-Q3	-1.9
Trade balance	5.8	7.0	14.0	15.4	18.4	15.8	Q1-Q3	14.8
Of which: Oil and gas (net)	-9.7	-11.8	-5.7	-4.8	-6.9	-5.0	Q1-Q3	-7.6
Inward direct investment	18.8	21.8	16.6	3.8	23.8	16.8	Q1-Q3	26.6
Overall balance	-7.3	15.2	-1.1	12.1	11.3	10.6	Q1-Q3	7.3
Terms of trade, percent change (excluding oil)	-2.5	-3.3	-14.6	-0.2	6.5	...	...	2.7
Gross reserves								
In billions of U.S. dollars (end period)	99.4	111.9	105.9	116.4	127.6	126.5	Oct.	135.0
In months of prospective imports of goods and services	5.9	8.1	8.0	7.9	8.0	7.9	Oct.	7.9
As a percent of short-term debt 4/	177	189	191	213	226	224	Oct.	234
Total external debt 5/								
In billions of U.S. dollars	266.1	293.3	310.7	318.8	345.4	335.4	Q2	359.3
In percent of GDP	29.0	32.9	36.1	34.2	34.0	33.0	Q2	32.8
Exchange rate								
Rupiah per U.S. dollar (period average)	10,414	11,862	13,391	13,306	...	13,382	Jan.- Dec.	...
Rupiah per U.S. dollar (end of period)	12,171	12,435	13,788	13,473	...	13,579	Dec. 18	...
Memorandum items:								
Jakarta Stock Exchange (12-month percentage change, composite index)	-1.0	22.3	-12.1	15.3	...	15.5	Dec. 18 (ytd)	...
Oil production (thousands of barrels per day)	830	794	800	820	815			800
Nominal GDP (in trillions of rupiah)	9,546	10,570	11,532	12,407	13,604			14,852

Sources: Data provided by the Indonesian authorities; and IMF staff estimates and projections.

1/ Includes NPISH consumption.
2/ Contribution to GDP growth (percentage points).
3/ Includes changes in stocks.
4/ Short-term debt on a remaining maturity basis.
5/ Public and private external debt.