



# INDONESIA

## SELECTED ISSUES

July 2019

This paper on Indonesia was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on June 17, 2019.

Copies of this report are available to the public from

International Monetary Fund • Publication Services

PO Box 92780 • Washington, D.C. 20090

Telephone: (202) 623-7430 • Fax: (202) 623-7201

E-mail: [publications@imf.org](mailto:publications@imf.org) Web: <http://www.imf.org>

Price: \$18.00 per printed copy

**International Monetary Fund  
Washington, D.C.**



# INDONESIA

## SELECTED ISSUES

June 17, 2019

Approved By  
**Asia and Pacific  
Department**

Prepared By Calixte Ahokpossi, Agnes Isnawangsih,  
Md. Shah Naoaj (all APD), Ting Yan (COM), Baoping Shang  
(FAD), Heedon Kang (MCM), and Manasa Patnam (SPR)

## CONTENTS

### EXCHANGE RATE AND TRADE DYNAMICS IN INDONESIA: CONNECTING THE DOTS

A. Exchange Rate and Trade Balance: Recent Trends	4
B. Data and Empirical Methodology	7
C. Results	8
References	15

### FIGURE

1. Exchange Rate and Trade Fluctuations: Recent Trends	5
--	---

### TABLES

1. Import Price: Pass-Through of Exchange Rate and Commodity Price	9
2. Export Price: Pass-Through of Exchange Rate and Commodity Price	11
3. Import and Export Volume Response to Prices	11

### INDONESIA'S GROWTH-AT-RISK

References	25
------------	----

### FIGURES

1. Financial Condition Index	20
2. Macrofinancial Vulnerability Index	20
3. Quantile Regression Results	21
4. Growth-at-Risk Results	21

**TABLE**

1. List of Macrofinancial Variables for GaR Analysis	18
--	----

**APPENDICES**

I. Data Source	22
2. Parametric Estimation of Future Growth Distribution	23

**IMPACT OF MONETARY POLICY COMMUNICATION IN INDONESIA** 26

A. Transparency and Clarity	26
B. Predictability	28
C. Impact on Market Rates	29

**FIGURES**

1. Press Releases Words and Paragraphs	28
2. Predictability of Interest Rate Decision	28

**TABLES**

1. Impact of Monetary Policy Surprise and Anticipation	29
2. Impact of Press Release on Market Rates	30
3. Impact of Monetary Policy Reports on Market Rates	31

**APPENDICES**

I. Data Source	32
II. Impact of Press Release and Monetary Policy Report	33
III. Description of Analytical Approaches	34

**OPERATIONALIZING A MEDIUM-TERM REVENUE STRATEGY IN INDONESIA** 36

A. The Context	36
B. Key MTRS Reforms	38
C. Complementary Reforms	44
D. Sequencing and Phasing	45
E. Conclusion	47

References	53
------------	----

**BOXES**

1. CIT and Tax Competition	48
2. Public Investment Efficiency	49

**FIGURES**

1. Government Revenues and Collection Efficiencies \_\_\_\_\_ [37](#)
2. Revenue Gain from Sequencing and Phasing of Reforms—An Illustrative Scenario\_\_ [46](#)

**TABLES**

1. Doing Business Ranking \_\_\_\_\_ [38](#)
2. Key Tax Policy and Administration Reforms \_\_\_\_\_ [50](#)
3. Reform Sequencing and Phasing \_\_\_\_\_ [51](#)
4. An Action Plan in the Near Term \_\_\_\_\_ [52](#)