



# INDONESIA

March 2022

## 2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR INDONESIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Indonesia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 11, 2022 consideration of the staff report that concluded the Article IV consultation with Indonesia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 11, 2022, following discussions that ended on January 24, 2022, with the officials of Indonesia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 22, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Indonesia.

The documents listed below will be separately released.

### Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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



## IMF Executive Board Concludes 2022 Article IV Consultation with Indonesia

FOR IMMEDIATE RELEASE

**Washington, DC – March 11, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Indonesia.

As elsewhere, the COVID-19 pandemic has led to tragic loss of life and triggered a major economic downturn in Indonesia. The authorities have responded with a bold and comprehensive, and well-coordinated policy package that has successfully maintained economic and financial stability. With the recovery underway, they have begun to withdraw the exceptional support measures. Nevertheless, the pandemic has caused scarring and reinforced the need to tackle longstanding challenges, including a low revenue intake and shallow financial markets.

The Indonesian economy is recovering at a brisk pace. The Delta variant surge slowed the economic recovery in mid-2021, but growth picked up in the fourth quarter and is expected to strengthen over 2022–23. IMF staff project GDP growth at 5.4 percent for 2022 and 6.0 percent in 2023, supported by favorable global commodity prices, easing restrictions on activity, continued policy support, and rising mobility and confidence as the vaccination program expands into more remote areas. Inflation has remained lower than in other emerging and advanced economies, allowing Bank Indonesia (BI) to support the recovery through accommodative policies, and is expected to rise gradually within the inflation target range in 2022. The outlook is improving but the balance of risks remains tilted to the downside.

### Executive Board Assessment<sup>2</sup>

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for maintaining macroeconomic and financial stability despite the severe impact of the COVID-19 pandemic, helped by substantial policy buffers accumulated over years of strong macroeconomic performance. While the outlook is improving, the balance of risks remains tilted to the downside. As the recovery takes hold, Directors considered that it would be appropriate to gradually phase out the exceptional policy support deployed during the pandemic and encouraged the authorities to press ahead with structural reforms.

Directors agreed that the authorities' gradual withdrawal of fiscal policy support would be appropriate. They noted that restoring the pre-pandemic 3 percent of GDP budget deficit ceiling in 2023 will bolster the credibility and sustainability of the fiscal framework. Directors supported the authorities' plans to develop a medium-term revenue strategy to finance high

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<sup>1</sup> 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.

<sup>2</sup> 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>.

priority spending critical to achieving Indonesia's development goals. Savings from energy subsidy reforms could also be used to strengthen the social safety net.

Directors noted that monetary policy has remained appropriately accommodative to support the recovery. They welcomed the authorities' commitment to stay ahead of the curve and urged them to closely monitor developments to ensure that inflation and inflation expectations remain well anchored. While the temporary deployment of additional policy tools has helped to successfully contain bouts of market volatility, Directors encouraged the authorities to end central bank primary market purchases and allow the policy rate to provide a clearer signal of the monetary stance. They also highlighted the role of exchange rate flexibility in absorbing shocks.

Directors noted that the Indonesian financial sector remains stable, and that intensive supervision is necessary while crisis-related regulatory relief is in place. They welcomed the authorities' efforts to promote financial deepening and inclusion, including through an extensive digitalization agenda and measures to reduce information asymmetries, through credit information sharing, which should support the recovery of credit markets.

Directors commended the Indonesian authorities for their ambitious structural reform agenda. They encouraged the authorities to maintain the momentum with labor and financial market reforms aimed at increasing investment, boosting growth, and mitigating the scarring effects of the pandemic. Improvements to education, women's labor force participation, and governance frameworks can also support medium-term growth.

Directors welcomed the authorities' efforts to tackle climate change and took positive notes of their recent climate change mitigation measures. They encouraged the authorities to undertake further reforms, including on energy subsidies, measures on carbon pricing and the emission trading system, and fostering a green financial market.

Indonesia: Selected Economic Indicators						
	2018	2019	2020	2021 Est.	2022 Proj.	2023 Proj.
Real GDP (percent change)	5.2	5.0	-2.1	3.7	5.4	6.0
Domestic demand	6.3	4.0	-3.8	2.9	4.7	6.1
<i>Of which:</i>						
Private consumption 1/	5.1	5.2	-2.7	2.0	4.9	5.9
Government consumption	4.8	3.3	2.0	4.2	4.7	4.0
Gross fixed investment	7.9	4.5	-5.0	3.8	5.2	7.1
Change in stocks	0.4	-0.6	-0.7	0.1	-0.2	0.0
Net exports 2/	-1.0	1.4	1.4	1.0	0.9	0.3
Saving and investment (in percent of GDP)						
Gross investment 3/	34.6	33.8	32.4	31.5	31.0	31.3
Gross national saving	31.6	31.1	31.9	31.9	31.0	29.8
Prices (12-month percent change)						
Consumer prices (end period)	3.2	2.6	1.7	1.9	3.5	3.2
Consumer prices (period average)	3.3	2.8	2.0	1.6	2.9	3.3
Public finances (in percent of GDP)						
General government revenue	14.9	14.2	12.5	13.6	13.2	13.2
General government expenditure	16.6	16.4	18.6	18.2	17.1	16.2
<i>Of which: Energy subsidies</i>	1.0	0.9	0.7	0.8	0.9	0.7
General government balance	-1.8	-2.2	-6.1	-4.6	-4.0	-3.0
Primary balance	0.0	-0.5	-4.1	-2.6	-1.3	-0.5
General government debt	30.4	30.6	39.8	42.8	42.9	42.9
Money and credit (12-month percent change; end of period)						
Rupiah M2	6.3	6.5	12.5	13.9	8.4	9.0
Base money	0.2	2.9	0.4	19.3	8.8	4.7
Claims on private sector	10.3	5.8	-0.4	6.1	9.2	9.7
One-month interbank rate (period average)	6.3	6.5	4.5	3.6	...	...
Balance of payments (in billions of U.S. dollars, unless otherwise indicated)						
Current account balance	-30.6	-30.3	-4.5	4.7	-0.8	-20.6
In percent of GDP	-2.9	-2.7	-0.4	0.4	-0.1	-1.5
Trade balance	-0.2	3.5	28.2	43.9	43.3	25.9
<i>Of which: Oil and gas (net)</i>	-11.4	-10.3	-5.4	-9.7	-6.7	-11.5
Inward direct investment	20.6	23.9	18.5	20.2	22.1	24.5
Overall balance	-7.1	4.7	2.6	9.0	14.2	10.8
Terms of trade, percent change (excluding oil)	0.8	-2.3	-5.6	8.9	2.9	-2.8
Gross reserves						
In billions of U.S. dollars (end period)	120.7	129.2	135.9	144.9	159.1	169.9
In months of prospective imports of goods and services	7.1	9.7	7.9	7.4	7.3	7.1
As a percent of short-term debt 4/	201	204	209	213	224	226
Total external debt 5/						
In billions of U.S. dollars	375.4	403.6	417.0	436.8	454.4	488.1
In percent of GDP	36.0	36.0	39.3	36.8	35.4	34.8
Exchange rate						
Rupiah per U.S. dollar (period average)	14,235	14,152	14,529	14,297	...	...
Rupiah per U.S. dollar (end of period)	14,390	13,866	14,050	14,253	...	...
Memorandum items:						
Jakarta Stock Exchange (12-month percentage change, composite index)	-2.5	1.7	-5.1	10.1	...	...
Oil production (thousands of barrels per day)	810	805	806	803	800	797
Nominal GDP (in trillions of rupiah)	14,839	15,833	15,438	16,971	18,471	20,220
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.						



# INDONESIA

## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

February 22, 2022

### KEY ISSUES

**Context.** As elsewhere, the COVID-19 pandemic has led to tragic loss of life and triggered a major economic downturn in Indonesia. The authorities have responded with a bold and comprehensive policy package that has successfully maintained economic and financial stability. With the recovery underway, they have begun to withdraw the exceptional support measures. Nevertheless, the pandemic has caused scarring and reinforced the need to tackle longstanding structural challenges.

**Outlook and risks.** The economic recovery picked up speed in late 2021 and is set to strengthen in 2022–23, supported by domestic demand as well as favorable global commodity prices. Annual inflation in 2022–23 is projected to rise close to the 3 percent midpoint of the target corridor. The outlook is improving, but the balance of risks remains tilted to the downside with increasing risks relating to tighter global financial conditions and the spread of the Omicron variant.

#### Main Policy Recommendations

- Restoring the pre-pandemic budget deficit ceiling of 3 percent of GDP is appropriate. The stronger-than-expected growth outcome in 2021 and the passage of the tax reform bill have eased concerns that the targeted return to the ceiling by 2023 would require too steep an expenditure adjustment. The pace of adjustment could be reconsidered if severe downside risks materialize.
- An accommodative monetary policy stance should continue until the recovery is more firmly entrenched, as long as inflation and inflation expectations remain well anchored. BI should stay nimble given heightened spillover risks while gradually reducing banking system liquidity. BI primary market purchases should end as intended in 2022 and be confined to periods of severe market dysfunction.
- Risks to bank balance sheets from recent regulatory relief measures should be mitigated by intensive supervision to ensure prudent lending and proactive provisioning. The authorities' efforts to promote financial deepening and inclusion are welcome.
- Advancing broad structural reforms, supported by measures to raise additional fiscal revenues, would help address scarring from the pandemic and support medium-term growth. The introduction of a carbon tax is a welcome first step on climate change mitigation and should be reinforced by further reforms, including of energy subsidies and pricing.

Approved By  
**Odd Per Brekk (APD)**  
**and Anna Ilyina (SPR)**

Mission dates: January 4–24, 2022  
 Mission team: Cheng Hoon Lim (Head), Yan Carrière-Swallow, Eugenio Cerutti, Koki Harada, Agnes Isnawangsih, Minsuk Kim, Robin Koepke, James Walsh (Senior Resident Representative) (all APD), William Gbohoui (FAD), Hou Wang (MCM), and Diva Singh (SPR). Rosemary Lim, Executive Director; Firman Mochtar, Alternate Executive Director, and Ferry Kurniawan, Advisor (all OED); and Odd Per Brekk (senior reviewer) and Sanjaya Panth (incoming senior reviewer), joined the concluding meetings.

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