

Wednesday 7th February 2018 –9:00am
International

Prepared by: Trevis Gangaya, Analyst I (Research and Analytics)
Trevis.Gangaya@firstcitizenstt.com

IMF Executive Board Concludes 2017 Article IV Consultation with Indonesia

- Following its official conclusion on the 2017 Article IV Consultation with Indonesia, the IMF has cited its confidence in the country's economy. Real GDP growth is estimated to have expanded slightly to 5.1% in 3Q2017 from 5% in 2016 and 1H2017, led by robust exports and fixed investment.
- Inflation fell to 3.3% in November 2017, at the lower half of the official target band (4±1%), 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% for 2017.
- Additionally, the country's current account deficit declined to 1.5% 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 IMF has estimated the economy grew by 5.1% in 2017, and is anticipated to grow gradually by 5.6% over the medium term, led by robust domestic demand.
- Inflation is projected to remain at around 3.5%, within the official target range, due to stable food and administered prices.
- The current account deficit is expected to remain contained at near 2% of GDP due to firm commodity prices and robust exports.
- Whilst the IMF lauded the efforts by government, they voiced the need for the authorities to stay vigilant against risks, including from volatile capital flows.
- Also, the IMF stressed that achieving higher potential growth would help create jobs for the young and growing labor force. Therefore, 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.

IMF Recommendations:

- More focus is expected to place in boosting infrastructure investment. In support of this policy measure, the IMF stated that priority should be given to financing infrastructure with domestic revenue, as well as greater private sector participation, including foreign direct investment.
- Conclusively, the IMF encouraged greater focus on the areas identified by the Financial Sector Assessment Program (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.

Key Economic Indicators

	2014	2015	2016	2017	2018
	Latest Outturn			Projections	
Real GDP (percent change)	5.6%	5.0%	4.9%	5.1%	Q1- Q3: 5.3%
Central government debt as a % of GDP	24.8%	24.7%	27.4%	-	29.5%
Consumer prices (average)	6.4%	6.4%	6.4%	3.8%	Jan- Nov :3.4%
BALANCE OF PAYMENTS (Percent of GDP): Current Account Balance	-3.2%	-3.1%	-2.0%	-1.5%	Q1-Q3: 1.9%
BALANCE OF PAYMENTS: Trade balance (bn US\$)	5.8	7.0	14.0	15.8	Q1-Q3: 14.8
Gross official reserves (bn US\$)	99.4	111.9	105.9	126.5	Oct: 135
Import Cover in months of prospective imports of goods and services	5.9	8.1	8.0	7.9	Oct: 7.9

Source: International Monetary Fund (IMF)



Follow us on Twitter @FCISResearch

Disclaimers

All information contained in this article has been obtained from sources that First Citizens Investment Services believes to be accurate and reliable. All opinions and estimates constitute the Author's judgment as of the date of the article; however neither its accuracy and completeness nor the opinions based thereon are guaranteed. As such, no warranty, express or implied, as to the accuracy, timeliness or completeness of this article is given or made by First Citizens Investment Services in any form whatsoever. First Citizens Investment Services and/or its employees or directors may, where applicable, make markets and effect transactions, or have positions in securities or companies mentioned herein. Neither the information nor any opinion expressed shall be construed to be, or constitute an offer or a solicitation to buy or sell.