SYNERGY
IN SAFEGUARDING STABILITY, REALIZING STRUCTURAL REFORMS
The Dance of a Thousand Hands is performed by the Gayo tribe, symbolising courtesy, education, togetherness, mutual cooperation and heroism in Aceh. The dancers must be able to concentrate and train intensively because of the cohesive choreography, speed and timing required for the dance. The Dance of a Thousand Hands illustrates the importance of synergy, speed and accuracy from policymakers to create stability, stimulate economic growth and actualise structural reforms.
VISION
To be a credible institution and the best central bank in the region by strengthening the strategic values held as well as through the achievement of low inflation along with a stable exchange rate.

MISSION
To achieve rupiah exchange rate stability and maintain the efficacy of monetary policy transmission in order to drive quality economic growth.

To nurture an effective and efficient national financial system that can withstand internal and external shocks in order to support the allocation of funding/financing that contributes to national economic stability and growth.

To ensure a secure, efficient and smooth payment system that contributes to the domestic economy and helps maintain monetary as well as financial system stability whilst broadening access in the national interest.

To build and maintain the organisation and human resources of Bank Indonesia, who are performance based and honour integrity, as well as to enforce good corporate governance in the implementation of tasks as mandated in prevailing laws.

STRATEGIC VALUES
The values that form the basis of Bank Indonesia, the management and employees to act and or behave, consisting of Trust and Integrity – Professionalism – Excellence – Public Interest – Coordination and Teamwork.
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“With a policy mix implemented on a disciplined, consistent, and measured basis within a synergetic framework for coordination, the Indonesian economy is set to chart more robust, balanced, and sustainable growth for the future”

Agus D. W. Martowardojo
Governor
FOREWORD

The changes in the global economic constellation since the 2008 crisis, with its far-reaching, deeply felt impact, have given birth to new and more complex challenges in managing macroeconomic stability. In 2015, while strenuous efforts continued on many fronts to resolve the various domestic structural problems, Indonesia also had to cope with a series of external shocks in the global economy that impacted the nation through the financial and trade channels. Recovery in the global economy has since disappointed expectations, as it has progressed slowly on a multispeed track and remains fraught with uncertainty. Advanced economies, led by the United States, have mounted a more solid recovery. However, the economies of emerging market countries, led by China, underwent a structural slowdown that sent commodity prices into decline and in turn put sustained pressure on Indonesia’s exports. These imbalances in global economic recovery have produced a monetary policy divergence among countries. The monetary policy in the United States has embarked on a period of normalization after six years when interest rates were held at near zero percent. At the same time, Europe, Japan, and emerging markets pursued further relaxation of monetary policy to prevent even greater slowing of economic growth. Deterioration in commodity prices has weighed more heavily on the economic performance of emerging market economies in tandem with uncertainty over the size and speed of interest rate increases in the United States. These two factors were key forces at work in the series of shocks on global financial markets in 2015 that in turn depressed capital flows to emerging markets, including Indonesia.

Indonesia sustained considerable impact from these global economic and financial market dynamics due to an inadequately diversified export structure and heavy dependence on external sources of financing. The structure of Indonesia’s exports is more resource-based, and therefore the deterioration in commodity prices had significant impact on exports that in turn has affected performance in various sectors of the economy. Besides this, the substantial import content in export commodities meant that export-oriented industry was poorly positioned to take advantage of rupiah depreciation to boost export performance. On the other hand, lack of development in sources of financing on the domestic financial market has resulted in a high level of dependence on external sources of financing. These sources consist mainly of portfolio capital inflows, which are strongly influenced by global dynamics, and private external debts, which are susceptible to exchange rate fluctuation. If not properly managed, this combination of external and domestic challenges could have disrupted macroeconomic and financial system stability and led to further economic growth slowdown.

In responding to these external and domestic challenges, Bank Indonesia and the Government have strengthened policy synergy with the aim of safeguarding macroeconomic stability and generating momentum for economic growth. Efforts to preserve macroeconomic stability included the steering of inflation to within the 2015 target range of 4±1%, reduction of the current account deficit to a more prudent level, and maintenance of exchange rate stability in keeping with fundamentals. To this end, Bank Indonesia acted consistently and with caution in staying the course with the tight bias monetary policy introduced in mid-2013 until October 2015. This policy was also bolstered by measures to stabilise the exchange rate and thus curb excessive pressure on the rupiah that could have otherwise disrupted the stability of the economy. The implementation of prudent principles in non-bank corporate external debt management has been reinforced to improve business capability in managing risks, in particular those arising from exchange rate fluctuations. At the same time, Bank Indonesia pursued selective relaxation of macroprudential policies while lowering the primary statutory reserve requirement in rupiah to generate momentum for economic recovery. These policies were managed in synergy with the increase in the government economic stimulus commensurate with the opening of fiscal space as a positive effect of the energy subsidy reforms. In the real sector, a sustained drive to accelerate the implementation of structural reforms involved the launching of a series of government policy packages supported by a number of Bank Indonesia policy actions for financial market deepening.

With excellent coordination and synergy in place for monetary, fiscal, and real sector policies, pressure on macroeconomic stability eased and economic growth gains momentum. The achievement of macroeconomic stability was reflected in the subdued inflation of 2015, on track with target, reduction in the current account deficit to a prudent level, the return of capital inflows to the domestic financial market, and more stable movement in the rupiah. Inflation was curbed to within the targeted range of 4±1%. These achievements were supported by the managed domestic demand, well-anchored inflation expectations, and adequate supply of food staples. The current account deficit also came down to about 2.1% of GDP in response to well managed domestic demand. Meanwhile, the capital and financial account saw improvement in the fourth quarter of 2015, bolstered by the easing of turmoil on global financial markets and improving perceptions among market participants of the outlook for the Indonesian economy. Consistent with these developments, the rupiah exchange rate also steadied.
and even underwent appreciation in the fourth quarter of 2015. As concerns economic growth, the fiscal stimulus launched by the Government and onset of renewed market confidence also created momentum for higher economic growth during the second half of 2015. In 2015, Indonesia stood out as an emerging market that maintained a stable economy with relatively high economic growth compared to other emerging market countries.

The dynamics of the economy in 2015 taught some valuable lessons for reinforcing the principles of policy application in the future management of the Indonesian economy. First, macroeconomic policies, both fiscal and monetary, applied in a disciplined, consistent, and timely manner are key to maintaining macroeconomic stability and promoting sustainable economic growth. Second, this macroeconomic discipline also needs to be supported by strong policy synergy among policy stakeholders, including Bank Indonesia, the central and regional governments, and other relevant authorities. Appropriate policies combined with strong synergy will not only help the Indonesian economy through the difficult times of shocks, but will also put the economy on the proper footing to gain momentum for growth. Third, during recent years, the cycles in the domestic economy have dealt lessons on the importance of implementing structural reforms and diversifying sources of growth in ways that could reinforce the foundations of the economy for greater resilience and sustainable growth. These lessons have become an important resource for dealing with the future dynamics of the world economy, which is predicted to be fraught with even more challenging risks and uncertainties.

Looking forward, the various challenges and risks require proactive measures and well-coordinated policy responses. Regarding the external side, the possibility that the global economy recovery will remain sluggish and imbalance, the continued slowdown in China’s economy and the its policy implications for global financial markets, and the deterioration of commodity prices represent the three major risks that need to be mitigated for proper management of their negative impact on macroeconomic stability and economic growth momentum. On the domestic side, the structural reform policies need to be consistently implemented and directed towards raising potential output and improving the productivity and competitiveness of the economy. For this purpose, coordination will be maintained between Bank Indonesia and the Government in implementing synergetic, mutually reinforcing monetary, fiscal, and structural reform policies. Bank Indonesia will implement a policy mix that is consistently directed at safeguarding macroeconomic and financial system stability while taking prudent advantage of room for measured relaxation of monetary and macroprudential policy should various parameters in the economy permit.

With a policy mix of fiscal, monetary, and structural reforms implemented on a disciplined, consistent, and measured basis within a synergetic framework for coordination, the Indonesian economy is set to chart more robust, balanced, and sustainable growth for the future. In 2016, the Indonesian economy is forecasted to grow by 5.2-5.6% with an upward trend over the medium term, commensurate with the expanding capacity of the economy. With greater capacity in the economy, inflation is projected within the target range of 4±1% for 2016-2016 and 3.5±1% for the medium term. In view of the improved structure of the economy and more diversified sources of economic growth, current account deficit is forecasted be maintained at a safe level with more sound structure.

A more in-depth discussion and description of the dynamics of the economy in 2015, the various policy responses put in place, the thrust of policy, and the economic outlook is presented in this book, the Economic Report on Indonesia 2015. This book presents the linkages between global economic dynamics and the Indonesian economy and the underlying thinking of the various policies undertaken by Bank Indonesia and the Government during 2015. In reading this book, the reader is also expected to gain a comprehensive view of the roles of Bank Indonesia, the Government, and other relevant authorities in steering the Indonesian economy through the turbulence from the shocks during 2015. It is also hoped that readers will derive valuable lessons from the journey of the economy in 2015, which we are convinced are of great relevance to the future work for improving the economy. Our belief is that nothing in the journey of a nation’s economy happens by accident. Our ability to learn lessons from the past will determine the future that we will be able to shape in the economy.

Finally, on behalf of the Board of Governors of Bank Indonesia, I would like to present the Economic Report on Indonesia 2015 to the public of Indonesia. Our hope is that this book will carry forward the LPI tradition of serving as a leading quality and trusted reference for developing the steps that we will take forward for building a better economy.

May God the Almighty never fail to bestow His blessing in every step of our endeavours in presenting the best work for our beloved nation, Indonesia.

Jakarta, March 2016
Governor of Bank Indonesia

Agus D. W. Martowardjo