As South-East Asia’s largest economy, Indonesia experienced a broad-based slowdown in 2015 as consumer spending and business investment slowed, while exports remained subdued. The economy grew by 4.8%, well below its average growth rate of 6% in the preceding five years.

Both exports and imports reached their lowest levels since 2010. Weak corporate performance, especially in commodity-based sectors, and excess production capacity acted as a drag on private investment. Consumer spending in 2015 was adversely affected by relatively high inflation and unemployment rates of 6.4% and 6.2%, respectively.

Fewer than 200,000 new jobs were created between August 2014 and August 2015 compared with an average 2.6 million new jobs created yearly between 2006 and 2012. Slower job growth has undermined social outcomes, with the poverty rate rising to 11.1% after a steady decline in the past decade.

Economic growth is projected to rebound to 5.3% in 2016 and 5.5% in 2017.

Consumer spending should benefit from lower inflation and accommodative monetary policy. The policy interest rate was cut by 25 basis points in January 2016 following further easing of inflation in late 2015. After tackling price and currency stability in 2015, monetary policy is expected to be more growth-oriented in 2016.

Investment is expected to benefit from higher budgeted public investment and recent announcements on regulatory and structural reforms. These measures include plans to simplify investment regulations and procedures and to enhance the finance of small and medium-sized enterprises by reducing financing costs and improving access to collateral through land titles.

Macroeconomic policy management is challenging amid slower economic growth and greater pressure on capital outflows.

Low oil revenue, sluggish economic activity and high disbursement of public infrastructure outlays resulted in a widening of the fiscal deficit to 2.8% of GDP in 2015, which was above the target of 1.9% of GDP and close to the statutory limit of 3% of GDP. To pre-finance the 2016 budget, which calls for further shifting of resources from energy subsidies to infrastructure and social assistance, the Government raised $3.5 billion in an international bond sale in December 2015.

On the monetary policy front, the central bank focused on stabilizing the domestic currency amid capital outflow pressures in 2015. Measures introduced in the second half of the year included foreign exchange interventions in the forward market, issuance of Bank Indonesia Certificates in foreign currency and renewing the bilateral currency swap agreement with China.