Summary of key economic developments
GDP growth was recorded at 5.1 percent yoy in the first quarter of 2018, led by robust investment growth, resulting in high imports growth, and a trade deficit of 2.1 percent of GDP in Q1. On the prices side, headline inflation stayed low at 3.4 percent yoy, due to the low food inflation resulting from the harvest season for several commodities, especially rice. Core inflation remained stable, while administered price inflation continued to track downwards. Indonesia’s Manufacturing Purchasing Manager’s Index (PMI) recording its strongest reading since June 2016 with motor vehicle sales improving in an accelerated pace. Foreign exchange reserves were down from the previous month, partly due to Bank Indonesia’s attempts to manage currency volatility. Despite the intervention, the Rupiah continued to depreciate 6.4 percent against the USD over the past month.

Further details
• Indonesia’s economy expanded 5.1 percent yoy in the first quarter of 2018. The GDP growth was a tick slower than the 5.2 percent recorded in the fourth quarter of 2017. Broadly in line with the pattern seen in the previous quarters, the growth resulted from a robust 7.9 percent yoy investment growth (the highest in 5 years), leading to high imports growth; while the other components of GDP remaining mostly stable. Private consumption persisted at 5.0 percent, while Government consumption moderated to 2.7 percent, partly due to the base effect of the same quarter last year. On the production side, the manufacturing sector remained the largest contributor to the growth, but construction and the transport and communication sectors were growing the fastest.

• Overall, the balance of payments recorded a deficit of USD 3.9 billion. The current account deficit was recorded at USD 5.5 billion (2.1 percent of GDP), slightly lower than in Q4 2017 at 2.3 percent, as imports grew faster than exports. Meanwhile, the capital and financial account surplus shrank significantly to USD 1.9 billion (0.7 percent of GDP) from USD 6.8 billion (2.7 percent of GDP) due to the adjustment in the foreign fund placements in the stock market and in the government bond market as a result from the heightened uncertainty in the global financial markets.

• Headline inflation in April 2018 stagnated from the March level, 3.4 percent yoy. Prices of several commodities has been moderated due to the harvest season. Core inflation also remained stable at 2.7 percent yoy while administered price inflation continued to ease to 4.0 percent yoy.

• The Nikkei/Markit Indonesia Manufacturing Purchasing Managers’ Index rose to 51.6 in April 2018 from 50.7 in March. This strongest reading of PMI in 22 months were supported by the improving demand conditions, particularly from domestic markets.

• Motorcycle and car sales grew 49.7 percent and 14.1 percent yoy, respectively, in April 2018. Both are higher than the previous month growth of 13.0 and -0.6 percent, respectively.

• The Consumer Confidence Index in April 2018 stood at 122.2, higher than the March outcome of 121.6. The increase was resulted from improving consumer expectations for future economic conditions and sustained consumer perception of current economic condition.

• Trade balance recorded a deficit of USD 1.6 billion in April 2018 from a surplus of USD 1.1 billion in March. Exports grew 9.0 percent yoy, largely due to an increase in oil and gas exports, while growth of imports accelerated to 34.7 percent yoy, exceeding exports growth, mainly due to an increase in oil and gas imports, following the increase of commodity prices.

• Official reserve assets declined by USD 1.1 billion to USD 124.9 billion at the end of April 2018. The decline in reserves in April was mainly due to Bank Indonesia’s efforts to keep the Rupiah stable.

• Indonesian financial assets recorded relatively weak outcomes over the past month. The Rupiah depreciated by 2.2 percent against the U.S. dollar. Bond yields, on average, increased across all tenors. Yields on 5-year bonds recorded an increase of 89 basis points. Meanwhile, the Jakarta Composite Index declined by 6.4 percent in the 30 days to May 11, 2018.

• In May 2018, Bank Indonesia raised its 7-Day Reverse Repo Rate by 25 basis point to 4.50 percent and the Deposit Facility and Lending Facility rates by 25 basis point to 3.75 percent and 5.25 percent, respectively.