

**Summary of key economic developments**

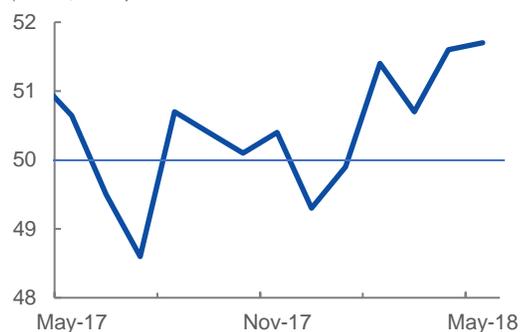
Indonesia's real sector recorded mixed outcomes with the Manufacturing Purchasing Manager's Index (PMI) rising to a 23-month high in May 2018. High frequency indicators such as motorcycle sales grew much slower than the previous month. On the prices side, headline inflation eased due to a slower increase in raw food prices. Core inflation remained stable, while administered price inflation continued to track downwards. Foreign exchange reserves were down from the previous month, partly due to repayment of external debts and Bank Indonesia's attempts to manage currency volatility. Indonesian financial assets also recorded mixed outcomes as the Rupiah appreciated and Jakarta Composite Index rose, while bond yields on average, increased across all tenors. Both credit growth and deposit growth accelerated.

**Further details**

- **Headline inflation eased to 3.2 percent yoy in May 2018 from 3.4 percent in April.** Prices increased at a slower pace despite the festive holidays, with raw food prices growing 4.5 percent yoy compared to 5.2 percent in April. Administered price inflation also eased to 3.6 percent yoy from 4.0 percent while core inflation remained stable at 2.7 percent yoy in May.
- **The Nikkei/Markit Indonesia Manufacturing Purchasing Managers Index increased from 51.6 in April 2018 to 51.7 in May 2018, indicating continued economic expansion.** Growth was underpinned by the fastest rise in new orders since July 2014, while output rose for the fourth consecutive month—the longest period of expansion in around five years.
- **Motorcycle sales growth eased to 10.9 percent yoy in May 2018 from 49.7 percent in April.**
- **The Consumer Confidence Index rose to 125.1 in May 2018 from 122.2 in April 2018.** The increase was mostly driven by an improvement in the gauge of current economic conditions, current income index and an increase in the purchase of durable goods. However, consumer perceptions of current employment was lower and perceptions of job availability for the next 6 months is more pessimistic.
- **Retail sales growth picked up in May to 4.4 percent yoy from 4.1 percent in the previous month – the fastest pace of growth in 11 months.** An increase in the sale of household appliances and information and communication equipment were the two components that drove the May outcome. The survey revealed that there is a perception that inflationary pressures over the next three months is expected to ease.
- **Both deposit growth and credit growth picked up.** Deposits and credits grew 7.4 percent and 8.9 percent yoy, respectively, in April 2018.
- **Official reserve assets declined by USD 2.0 billion to USD 122.9 billion at the end of May 2018.** The decline in reserves in April was mainly due to external debt repayments and Bank Indonesia's efforts to keep the Rupiah stable.
- **Indonesian financial assets recorded mixed outcomes over the past month.** The Rupiah appreciated by 1.2 percent against the U.S. dollar. Bond yields, on average, increased across all tenors. The Jakarta Composite Index rose by 1.5 percent in the 30 days to June 08, 2018.
- **At the end of May 2018, Bank Indonesia raised its 7-Day Reverse Repo Rate for the second time in the month by 25 basis point to 4.75 percent.** BI also raised the Deposit Facility and Lending Facility rates by 25 basis points to 4.00 percent and 5.50 percent, respectively.
- **Based on the central government's audited financial report, the budget deficit stood at IDR 341 trillion (equivalent to 2.5 percent of GDP) while the tax ratio was 10.7 percent in 2017.**
- **The Indonesia Deposit Insurance Corporation has decided to maintain its guaranteed interest rates of 5.75 percent for foreign exchange deposits and 8.25 percent for Rupiah deposited in microcredit banks.**
- **The government has prohibited state-owned enterprises from seeking new banks loans, requiring them to find alternative financing, such as securitization and bonds.**

**Manufacturing PMI rose to a 23-month high**

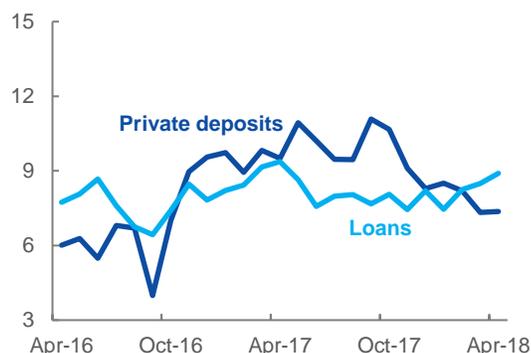
(index, LHS)



Source: CEIC; World Bank staff calculations

**Credit and deposit growth ticked up in April**

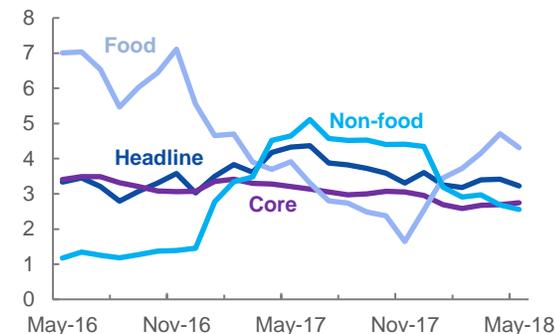
(percent yoy, LHS)



Source: BPS; World Bank staff calculations

**Inflation eased in May**

(percent yoy)



Source: BPS; World Bank staff calculations

**Indonesian financial assets recorded mixed outcomes**

(index, June 08, 2016=100, LHS; IDR thousands per USD and percent, RHS)



Source: BI; JSX; World Bank staff calculations