**Summary of key economic developments**

Indonesia’s real sector recorded mixed outcomes with the Manufacturing Purchasing Manager’s Index (PMI) easing slightly but still remaining in the expansionary territory, while the growth of the industrial production index fell to a five and-a-half-year low in February 2018. On the prices side, headline inflation picked up largely due to a rise in food and non-subsidized fuel prices. Core inflation remained stable, while administered price inflation continued to track downwards. Foreign exchange reserves were down a little from the previous month, partly due to Bank Indonesia’s attempts to manage currency volatility. Despite the intervention, the Rupiah depreciated under 1 percent against the USD over the past month. Credit growth accelerated, but private deposit growth moderated.

**Further details**

- The Nikkei/Markit Indonesia Manufacturing Purchasing Managers’ Index softened to 50.7 in March 2018 from 51.4 in February. The PMI still stood above the 50-mark threshold, indicating an expansion in the economy. This signaled softer expansions in both output and new orders. Nevertheless, firms increased their staffing levels again in response to increased new order volumes. In contrast, new export orders declined for the fourth consecutive month and input prices continued to rise.

- The Industrial Production Index continued to contract significantly at 3.5 percent yoy in February, larger than the previous contraction of 0.4 percent yoy in January. This is the largest contraction in more than 5 years.

- Motorcycle sales grew 6.5 percent yoy in March 2018, recovering from a contraction of 3.3 percent yoy in February.

- Headline inflation in March 2018 picked up to 3.4 percent yoy from 3.2 percent in February. This was mainly due to a rise in food (especially spices) and non-subsidized fuel prices.

- Deposit growth moderated while credit growth picked up. Both deposits and credit grew 8.2 percent yoy in February 2018.

- The Consumer Confidence Index in March 2018 stood at 121.6, lower than the February outcome of 122.5. The slight decline was due to a deterioration in consumer perception of present conditions (from 112.2 in February down to 110.2 in March).

- Official reserve assets declined by USD 2.1 billion to USD 126 billion at the end of March 2018. The decline in reserves in March was mainly due to Bank Indonesia’s efforts to manage volatility of the Rupiah.

- In March 2018, Bank Indonesia kept its 7-Day Reverse Repo Rate unchanged at 4.25 percent, while the Deposit Facility and Lending Facility rates were held at 3.5 percent and 5 percent, respectively.

- Indonesian financial assets recorded mixed outcomes over the past month. The Rupiah appreciated by 0.2 percent, against the U.S. dollar. Bond yields, on average, decreased across all tenors. Yields on 5-year bonds recorded decrease of 32 basis points. However, the Jakarta Composite Index declined by 2.1 percent in the 30 days to April 11, 2018.

- The Government lowers the limit for the investment requirement for companies to be eligible for tax holiday incentives from IDR 1 trillion to IDR 500 billion, effective as of 4 April 2018.

- The Government plan to increase the recipient of Bantuan Pangan Nontunai (non-cash food assistance) from 1.2 million families to 3.5 million families starting 25 April 2018.

- The Government would require all fuel retailers to seek approval from the government for fuel price increases at gas stations. This applies to both subsidized and non-subsidized fuel.

**Inflation picked up in March amid strong food price inflation (percent yoy)**

![Inflation chart]

Source: BPS; World Bank staff calculations

**Credit growth ticked up while deposit growth moderated in February (percent yoy)**

![Credit growth chart]

Source: BPS; World Bank staff calculations

**Managing PMI declined slightly but stood well above 50 (index, LHS)**

![PMI index chart]

Source: CEIC; World Bank staff calculations

**Indonesian financial assets recorded mixed outcomes (index, April 11, 2016=100, LHS; IDR thousands per USD and percent, RHS)**

![Financial assets chart]

Source: BI; JSX; World Bank staff calculations