Summary of key economic developments
Indonesia’s real sector recorded mixed outcomes with the Manufacturing Purchasing Manager’s Index (PMI) rising, but high frequency indicators, such as car sales growth, falling. The PMI outcome was notable since it was the first time since November 2017 that the index had crossed over into expansionary territory and it was also the strongest reading in 20 months. On the prices side, headline inflation eased marginally largely due to a base effect, notwithstanding a pickup in food price inflation. Core inflation remained stable, while administered price inflation continued to track downwards. A narrowing trade deficit and was the main headline on the external side. 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 just under 1 percent against the USD over the past month. Other Indonesian financial assets also weakened a little with the Jakarta Composite Index declining and bond yields rising. Bank Indonesia kept is benchmark policy rate unchanged in February.

Further details
- The Nikkei/Markit Indonesia Manufacturing Purchasing Managers’ Index rose to 51.4 in February 2018 from 49.9 in January. The PMI exceeded 50 (the threshold representing expansion) for the first time since November, due to a strong improvement in operating conditions. Employment increased for first time in 17 months, partly reflecting greater production.
- Car sales plunged 8.9 percent yoy in February 2018, after growing 12.4 percent yoy in January 2018.
- Headline inflation in February 2018 eased to 3.2 percent yoy from 3.3 percent in January. This was partly due to a base effect stemming from subsiding inflation in the housing, electricity, gas and fuel sector, which rose significant last year as the government increased administered prices. Meanwhile, both raw food and processed food inflation continued to rise.
- The Consumer Confidence Index in February 2018 stood at 122.5, lower than the January outcome of 126. The slight decline was due to the declining of durable goods purchase index and business expectation index in the next 6 months. Respondents also expected increased inflationary pressures for the next 3 months due to festive season and rising concerns on electricity and fuel price increase in the second half of 2018.
- Trade deficit narrowed in February 2018 to USD 116 million from USD 756 million in January. Exports grew 11.9 percent yoy, largely due to an increase in oil and gas exports, while growth of imports moderated slightly to 25.2 percent yoy from 27.9 percent due to a decline in oil and gas imports.
- Indonesia’s external debt grew 10.1 percent yoy in Q4 2017 to USD 352.2 billion. In terms of compositional growth, long term debt – which accounts for around 85 percent of total – grew 8.5 percent yoy, while short term debt grew 20.7 percent yoy.
- Official reserve assets stood at USD 128.06 billion at the end of February 2018, lower than January’s USD 131.98 billion. Reserve assets can cover 8.1 months of imports or 7.9 months of imports and servicing of government external debt repayments. The decline in reserves in February was mainly due to government external debt payments and Bank Indonesia’s efforts to keep the Rupiah stable.
- In February 2018, Bank Indonesia kept its 7 Day Reverse Repo Rate unchanged at 4.25 percent, while Deposit Facility and Lending Facility rates were kept at 3.5 percent and 5 percent, respectively.
- Indonesian financial assets weakened over the past month. The Jakarta Composite Index declined by 1.4 percent in the 30 days to March 13, 2018. The Rupiah depreciated slightly, by 0.9 percent, against the U.S. dollar. Meanwhile, bond yields, on average, increased across all tenors. Yields on 5-year bonds recorded the largest increase – 56 basis points.
- Rating and Investment Information, Inc. (R&I) credit rating agency upgraded Indonesia’s sovereign credit rating from BBB-/Positive Outlook to BBB/ Stable Outlook on March 7, 2018.
- The government plans to allocate additional subsidies for diesel and electricity to keep the prices of subsidized fuel and electricity stable amid increasing oil and coal prices.