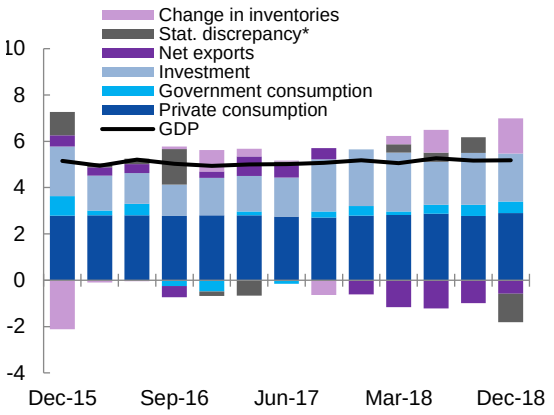
Summary of key economic developments

GDP posted a 5.2 percent yoy growth in Q4 2018 driven by stronger private consumption and smaller contraction in net exports. The current account deficit widened further to 3.6 percent of GDP in Q4 2018 from 3.3 percent of GDP in previous quarter due to a larger goods trade deficit. Indonesia's real sector recorded weak readings with the Manufacturing Purchasing Managers' Index (PMI) dropping below the expansion territory and consumer confidence index softening in January. Headline inflation continued to ease as food prices grew slower, while administered price inflation and core inflation was flat in January. Foreign exchange reserves reported a decrease at the end of January, as a result of government external debt payment. Indonesian financial assets continued to strengthen with the Jakarta Composite Index rising in the 30 days to February 11, the Rupiah appreciated and bond yields decreased across all tenors over the same period.

Further details

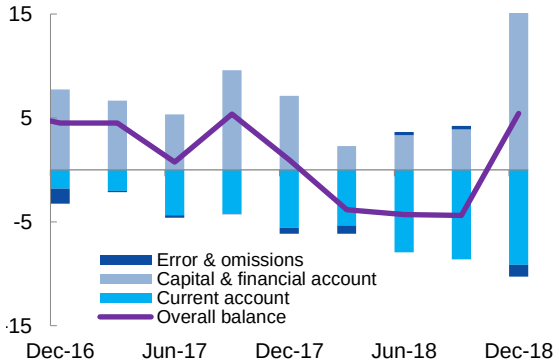
- **Indonesia's economy expanded 5.2 percent yoy in Q4 2018, bringing the annual 2018 growth to 5.2 percent.** GDP growth in 2018 was higher than the 5.1 percent recorded in 2017 and the highest since 2013. Stronger private consumption and smaller contraction in net exports offset slower government consumption and investment. In line with slower global trade due to trade tensions, both exports and imports growth was halved in Q4. On the production side, the manufacturing sector remained the largest contributor to growth but other services sectors (public administrations, defense, health, education, social work and others) grew the fastest.
- **Indonesia's current account deficit widened further to 3.6 percent of GDP in Q4 from 3.3 percent in Q3.** The widening of the CAD was driven by the increase in goods trade deficit, due to the significant reduction in the non-oil and gas trade surplus, as non-oil and gas exports fell larger than imports. The improvement in the primary income balance and services trade balance could not offset the increase deficit in the goods trade balance. Overall, the balance of payments (BOP) recorded a surplus supported by a widening of the capital and financial accounts surplus, mainly due to an rebound in portfolio investment inflows and the issuance of global bonds both by the government and private sector.
- **In January, headline inflation eased to 2.8 percent yoy.** Food price inflation continued to moderate to 2.0 percent after reaching 3.4 percent in December, contributing the most to the softening of headline inflation. Both administered price inflation and core inflation remained steady at 3.4 percent and 3.1 percent, respectively.
- **The Nikkei/Markit Indonesia Manufacturing Purchasing Managers' Index fell from 51.2 in December to 49.9 in January.** This was the first time the economy recorded a contraction after posting expansions in the past 12 months. Although output volumes were unchanged, overseas and domestic sales softened and new orders weakened.
- **The consumer confidence index eased to 125.5 in January from 127.0 in December**. This was mainly caused by less optimism on income growth and that consumer were less incline to buy durable goods. However, the consumers expect that there will be lower pressure of the prices growth in the next 6 months (February to July 2019). Meanwhile, retail sales growth eased to 4.8 percent yoy in January from 7.7 percent in December, which was a 7-month high.
- **Official reserve assets decreased by USD 597 million to USD 120.1 billion at the end of January.** The decrease was mainly due to government external debt payments. The reserve asset position was equivalent to the financing of 6.7 months of imports or 6.5 months of imports and government external debt payment.
- **Indonesian financial assets recorded strong outcomes.** The Rupiah appreciated by 0.6 percent against the US dollar in the 30 days to February 11. The Jakarta Composite Index rose by 2.1 percent over the same period. Bond yields, on average, decreased across all tenors.
- **Bank Indonesia (BI) held its 7-Day Reverse Repo Rate at 6.00 percent in January.** BI also maintained the Deposit Facility (DF) and Lending Facility (LF) rates at 5.25 percent and 6.75 percent, respectively.

Stronger private consumption drove growth in Q4
(contributions to growth yoy, percentage points)



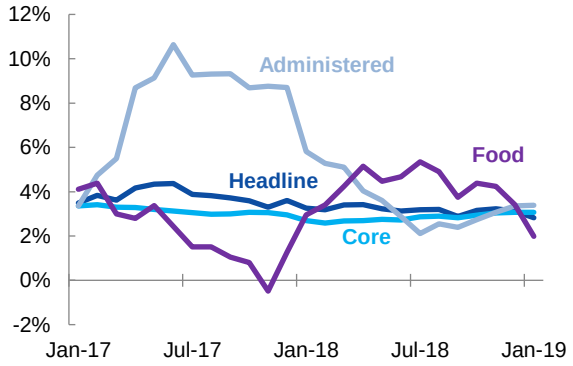
Source: BPS; World Bank staff calculations

Current account deficit widened in Q4 2018
(USD billion)



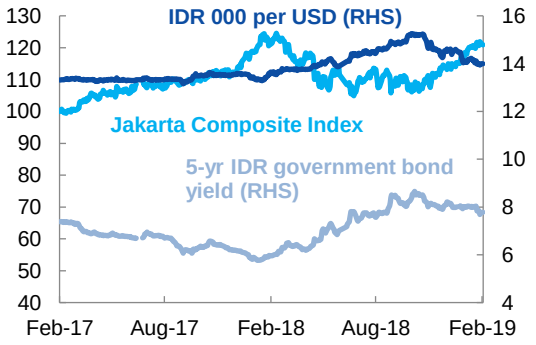
Source: BI; World Bank staff calculations

Inflation continued to ease in January
(percent yoy)



Source: BPS; World Bank staff calculations

Indonesian financial assets recorded strong outcomes
(index, February 10, 2017=100, LHS; IDR thousands per USD and percent, RHS)



Source: BI; JSX; World Bank staff calculations