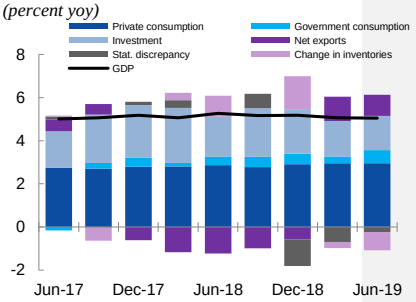
Summary of key economic developments

Indonesia's economy grew 5.0 percent yoy in Q2 2019, and the current account deficit widened to 3.0 percent of GDP. The real sector recorded weakened outcomes and headline inflation was broadly unchanged at 3.0 percent in July. The trade balance turned to deficit in July. Between January and June, revenues saw stronger growth due to income taxes and expenditure growth also accelerated due to personnel spending. Bank Indonesia (BI) lowered its 7-Day Reverse Repo Rate by 25 bps and foreign exchange reserves increased at the end of July. Indonesian financial assets recorded weak outcomes with the Rupiah depreciating, the Jakarta Composite Index decreasing and bond yields increasing across all tenors in the 30 days to August 12.

Further details

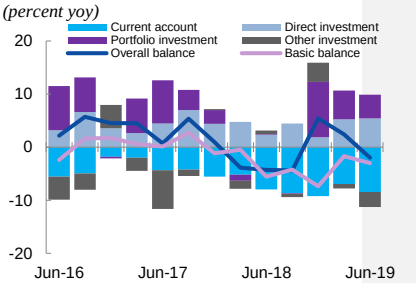
- **Indonesia's economy expanded 5.0 percent yoy in Q2 2019, broadly unchanged from Q1 at 5.1 percent.** Among the components, the Q2 outcome was in line with a stable fixed investment, rebound in net exports, as well as stronger private and government consumption. On the production side, stronger growth in the agriculture, transport and communication and other services sectors outweighed slower growth in the other sectors.
- **Indonesia's real sector recorded lower outcomes.** The Manufacturing PMI fell below the 50 threshold in July, due to the decline in the production volume and a slight rise in the total new orders. Consumer Confidence Index also dropped from 126.4 in June to 124.8 in July as consumers were less optimistic about current economic conditions. Retail Sales Index grew 2.3 percent yoy in July, after contracted 1.8 percent in June, due to the beginning of new school year.
- **Headline inflation was relatively stable at 3.3 percent yoy in July 2019.** The July outcome was driven by the increase in the food price inflation, while the non-food price inflation slightly rose to 2.7 percent, particularly for clothing, education, recreation and sports. Core inflation eased to 3.2 percent in July from 3.3 percent in June.
- **Indonesia's current account deficit widened to 3.0 percent of GDP in Q2 from 2.6 percent in Q1 2019.** The widening of the CAD was driven by lower goods trade surplus and larger deficit on both services trade balance and income balance. The capital and financial account posted a smaller surplus compared to Q1 2019, due to lower surplus in portfolio investment balance and higher deficit in other investment balance. Overall, the balance of payments (BOP) turned to a deficit of 0.7 percent of GDP in Q2 from a surplus of 0.9 percent of GDP in Q1.
- **Fiscal revenues between January to June 2019 grew 7.8 percent yoy and expenditure growth accelerated to 9.6 percent.** The revenue growth was driven by income taxes and excises while the increase in expenditures was mainly due to higher personnel spending. From January to June 2019, the revenue outturn was 42 percent of the budget (lower compared to 44 percent over the same period in 2018), while the expenditure disbursement rate was 42 percent of the budget, also lower than the same period last year
- **Official reserve assets increased by USD 2.1 billion from June to USD 125.9 billion at the end of July. On the other hand, Indonesian financial assets recorded weak outcomes.** The reserve asset position was equivalent to financing 7.3 months of imports or 7.0 months of imports and government external debt payments. The Rupiah depreciated by 1.0 percent against the US dollar in the 30 days to August 12, reaching IDR 14,220 per USD. The Jakarta Composite Index decreased by 1.9 percent and bond yields, on average, increased across all tenors.
- **Bank Indonesia (BI) lowered its 7-Day Reverse Repo Rate by 25 bps to 5.75 percent in July**. BI also lowered the Deposit Facility (DF) rate and Lending Facility (LF) rate by 25bps to 5.00 percent and 6.50 percent, respectively.
- **External capital inflow grew by 10.1 percent yoy to USD 391.8 billion at the end of Q2, higher compared to 8.1 percent yoy at the previous quarter.** Government and central bank external debt was USD 195.5 billion, while private sector (including state-owned enterprises) external debt was USD 196.3 billion.

Indonesia's GDP broadly unchanged in Q2
(percent yoy)



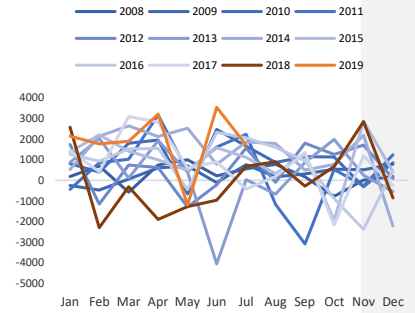
Source: BPS; World Bank staff calculations

Current account deficit widened to 3.0 percent in Q2
(percent yoy)



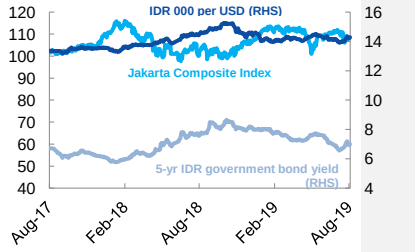
Source: BPS; World Bank staff calculations

Indonesia recorded a stronger capital inflow in Q2
(USD billion)



Source: IIF; BI; World Bank staff calculations

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



Source: BI; JSX; World Bank staff calculations

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