The Monetary Policy Review (MPR) is published monthly by Bank Indonesia after the Board of Governors’ Meeting each January, March, April, June, July, September, October and December. This report is intended as a medium for the Board of Governors of Bank Indonesia to present to the public the latest evaluation of monetary conditions, assessment, and forecast for the Indonesian economy, in addition to the Bank Indonesia monetary policy response published quarterly in the Monetary Policy Report in February, May, August, and November. Specifically, the MPR presents an evaluation of the latest developments in inflation, the exchange rate, and monetary conditions during the reporting month and decisions concerning the monetary policy response adopted by Bank Indonesia.
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The BI Board of Governors agreed on 20th and 21st March 2019 to hold the BI 7-Day Reverse Repo Rate at 6.00%, while also maintaining the Deposit Facility (DF) and Lending Facility (LF) rates at 5.25% and 6.75%, respectively. The decision is consistent with ongoing efforts to strengthen the external stability of the economy, reduce the current account deficit to a manageable threshold in particular, while maintaining the attractiveness of domestic financial assets. Meanwhile, interest rate and exchange rate policies will continue to focus on external stability as Bank Indonesia implements other accommodative policies to stimulate domestic demand as follows:

1. Maintaining a monetary operations strategy oriented towards increasing available liquidity by regular and scheduled term-repo transactions in addition to FX Swaps;
2. Strengthening accommodative macroprudential policy by raising the Macroprudential Intermediation Ratio (MIR) from 80-92% to 84-94% in order to bolster bank financing extended to the corporate sector;
3. Accelerating financial market deepening policy by: (i) strengthening market conduct through mandatory treasury certification for market players; and (ii) encouraging hedging instruments against domestic interest rate fluctuations through regulations concerning Rupiah Interest Rate Swaps (IRS) and Overnight Index Swaps (OIS); and
4. Strengthening payment system policy to support economic activities and financial inclusion, namely by (a) expanding electronification of the social assistance program (Bansos), transportation sector and local government finance; and (b) preparing QR Code payment standardisation by incorporating the MPM model (Merchant Presented Mode) into QRIS (QR Indonesia Standard) in order to enhance interconnectivity and, therefore, support the digital economic and financial ecosystem.

Bank Indonesia will continue to strengthen coordination with the Government and other relevant authorities in order to maintain economic stability, particularly in terms of controlling inflation and the current account deficit, while sustaining future economic growth momentum by catalysing domestic demand and maintaining external stability to stimulate exports, tourism and foreign capital investment.

Global economic growth continues to moderate with reduced financial market uncertainty. Economic growth in the United States decelerated as the effect of fiscal stimuli fades, labour productivity stagnates and business confidence retreats. Economic growth in Europe is expected to continue moderating on decreasing exports due to restrained demand from China, flagging business confidence and widespread uncertainty regarding the Brexit outcome. China's economy is also experiencing slower growth as a result of postponed fiscal stimuli and ongoing simmering trade tensions with the United States. The world economic outlook, therefore, is weighed down by lower international commodity prices, including oil. Meanwhile, advanced economies are adopting a more gradual approach to monetary policy normalisation, which has eased global financial market uncertainty. On one hand, the current global economic and financial
dynamics represent a challenge in terms of stimulating faster export growth, yet on the other hand have drawn foreign capital flows to emerging market economies, including Indonesia.

**At home, solid economic growth is predicted in the first quarter of 2019 on the back of domestic demand.** Robust consumption growth is expected to endure, supported by maintained public purchasing power and consumer confidence, fiscal stimuli through social spending, as well as election spending. Investment has slowed slightly in the first quarter of 2019 in line with cyclical trends at the beginning of the year, yet investment growth is expected to regain momentum in subsequent periods due to infrastructure projects. Notwithstanding, the contribution of net exports has continued to decrease in line with global economic moderation and sliding commodity prices. Export declines are largely attributed to agriculture and mining as well as a number of manufacturing goods. Moving forward, the policy mix instituted by Bank Indonesia, the Government and other relevant authorities will continue to support domestic demand and maintain economic growth momentum. Consequently, Bank Indonesia projects economic growth in 2019 in the 5.0-5.4% range.

**Indonesia’s balance of payments (BOP) is expected to improve in the first quarter of 2019, thus bolstering external resilience.** The projection is based on a maintained influx of non-resident capital, which reached USD6.3 billion in February 2019. Meanwhile, the trade balance recorded a USD0.33 billion surplus in February 2019 as non-oil and gas imports declined along with non-oil and gas exports. Consequently, the position of reserve assets stood at USD123.3 billion at the end of February 2019, equivalent to 6.9 months of imports or 6.7 months of imports and servicing government external debt, which is well above the international standard of three months. Looking forward, policy synergy will constantly be improved in order to strengthen external resilience. Measures to stimulate exports and tourism as well as control imports will be sustained in 2019, thus controlling the current account deficit within a manageable range of 2.5% of GDP. Furthermore, policy will also be directed towards attracting capital flows to offset the current account deficit.

**The rupiah continues to appreciate as external sector performance improves.** As of 19th March 2019, the rupiah strengthened 1.05% (ptp) or by an average of 0.85%, supported by a deluge of foreign capital inflows to the domestic financial markets. Most foreign capital flowed to the SBN market, contrasting the outflow booked in the stock market. Congruent with the promising external sector outlook, Bank Indonesia predicts rupiah stability in accordance with the currency's fundamental value and maintained market mechanisms. To support exchange rate policy effectiveness and strengthen domestic financing, Bank Indonesia will accelerate financial market deepening efforts, targeting the money market and foreign exchange market in particular.

**Inflation is trending downwards and remains under control within the target corridor for 2019 at 3.5%±1% (yoy).** The Consumer Price Index (CPI) experienced 0.08% (mtm) deflation or 2.57% (yoy) inflation in February 2019, down from 0.32% (mtm) or 2.82% (yoy) the month earlier. CPI deflation stemmed from deflationary pressures on volatile foods (VF) coupled with low core inflation and administered prices (AP) inflation. VF recorded deflation in line with seasonal trends. Meanwhile, core inflation was controlled through policy consistency by Bank Indonesia to anchor rational inflation expectations. Similarly, inflationary pressures on AP were mild due to lower fuel prices. Bank Indonesia will consistently maintain price stability and strengthen policy coordination with the Central and Regional Governments in order to control low and stable inflation within the target range.
Financial system stability has been maintained as the intermediation function improves and the banking industry effectively contains credit risk. The Capital Adequacy Ratio (CAR) of the banking industry remained high at 23.1% in January 2019, accompanied by a low level of Non-Performing Loans (NPL), namely 2.6% (gross) or 1.2% (net). In terms of the intermediation function, the banking industry reported faster credit growth from 11.8% (yoy) in December 2018 to 12.0% (yoy) in January 2019, while maintaining relatively stable deposit growth at 6.4% (yoy) in January 2019 compared with 6.5% (yoy) in December 2018. The performance of public listed corporations improved in the reporting period, as reflected by increasing profitability and repayment capacity. Moving forward, Bank Indonesia perceives adequate space to expand credit growth without disrupting financial system stability considering that the credit cycle is below the optimal level with an outlook of solid demand. Bank Indonesia projects high growth of loans disbursed by the banking industry towards the upper end of the 10-12% (yoy) range, supported by deposit growth forecasted in the 8-10% (yoy) range.

The payment systems, both cash and non-cash, remain uninterrupted. Cash payments posted positive growth in the reporting period with the position of currency in circulation growing 7.4% (yoy) in February 2019 and non-cash payments continue to enjoy faster uptake. Retail transactions through ATM/debit cards, credit cards and e-money accelerated to 15.3% (yoy) in January 2019, with e-money transactions growing by 66.6% (yoy). ATM/debit card transactions were still dominated by retail payments, accounting for 94.8% of total retail payment system transactions and growing by 15.4% (yoy). The use of e-money is gaining popularity, primarily as a payment instrument for different transportation modes and e-commerce. To that end, Bank Indonesia will continue to strengthen the role of the payment system to support productive economic activities.
Economic Developments and Monetary Policy

GLOBAL ECONOMIC DEVELOPMENTS

Global economic growth continues to moderate with reduced financial market uncertainty (Graph 2.1). Economic growth in the United States decelerated as the effect of fiscal stimuli fades, labour productivity stagnates and business confidence retreats. Economic growth in Europe is expected to continue moderating on decreasing exports due to restrained demand from China, flagging business confidence and widespread uncertainty regarding the Brexit outcome. China’s economy is also experiencing slower growth as a result of postponed fiscal stimuli and ongoing simmering trade tensions with The United States. The world economic outlook, therefore, is weighed down by lower international commodity prices, including oil. Meanwhile, advanced economies are adopting a more gradual approach to monetary policy normalisation, which has eased global financial market uncertainty. On one hand, the current global economic and financial dynamics represent a challenge in terms of stimulating faster export growth, yet on the other hand have drawn foreign capital flows to emerging market economies, including Indonesia.

The economy of the United States is projected to consolidate in 2019. The effect of fiscal stimuli introduced in 2018 will fade and no longer prop up economic growth in 2019. The economic slowdown will stem from consumption, investment and exports (Graph 2.2). The latest reading of the consumption indicator, namely personal consumption expenditure (PCE), has confirmed a decelerating trend in the first quarter of 2019. Similarly, residential and non-residential investment growth are expected to moderate as the impact of the transitory tax reform begins
to diminish. Meanwhile, export performance will be held back by economic moderation in several trading partners, including Europe and China. Finally, labour market improvements will face the dual constraints of a low participation rate and stagnating productivity.

**Inflationary pressures in the United States are easing with low inflation expectations.** CPI inflation in the United States fell to 1.5% in February 2019 from 1.6% in January 2019 (Graph 2.3), dragged down by lower energy prices. Meanwhile, core inflation has remained stable, supported by inflation of house prices and medical care. According to the latest surveys and market information, inflation expectations are continuing to decline in line with the constrained inflation wage spiral and forecasted economic consolidation.

**China’s economy is also expected to moderate on tighter deleveraging policy and dwindling external demand as trade tensions with the United States continue to simmer (Graph 2.4).** Lower economic growth is projected for 2019, held back by consumption and exports. Such developments were explained by the postponed reduction to value-added tax (VAT) and the lower social security premium planned for the beginning of April 2019. Consonant with weaker consumption growth, the manufacturing PMI has slipped into contractionary territory and growth of new loans disbursed by the banking industry remains sluggish. Economic moderation in China was further corroborated by a lower GDP target announced at the National Party Congress (NPC) in March 2019. China’s flagging exports stem from weaker global demand and the imposition of import tariffs by the United States. In addition, sluggish export performance is expected to persist during the first half of 2019. On the other hand, investment growth has begun to regain momentum as infrastructure investment increases. To that end, China’s Government is stimulating investment through issuances of Special Local Government Bonds.
China announced lower inflation in the reporting period by lower food and transportation inflation. CPI inflation stood at 1.7% (yoy) in January 2019, down from 1.9% (yoy) the month earlier (Graph 2.5). Congruently, Producer Price Index (PPI) inflation also experienced decline, to 0.1% (yoy), suppressed by lower commodity prices, weak external demand and decreasing world trade volume (WTV). Furthermore, there remains the risk of PPI deflation in the country.

In the euro area, economic moderation is expected to continue. The economy in Europe is suffering due to weaker export and consumption growth (Graph 2.6), while business and consumer confidence in the economy continues to retreat. In turn, such developments are also a corollary of the economic downturn experienced in China as the region’s main trading partner. Based on the economic downsizing in China, the European Central Bank (ECB) has downgraded its economic growth projection. Slower consumption has been confirmed by both the manufacturing and services PMI, which are tracking downward trends. The manufacturing sectors in some of Europe’s major players (including Germany and France) are also experiencing slower growth and thus exacerbating economic moderation in Europe. More specifically, the automotive industry has been reined in by tighter emissions regulations, thereby reducing production and sales. Congruous with the weaker economy, structural constraints continue to undermine labour market improvements.

Inflationary pressures in the euro area remain low, with inflation expectations experiencing a deeper decline. Low core inflation has been maintained, dropping to 1.0% in February 2019. Relatively low core inflation was attributable to weaker consumption and restrained wage growth. On the other hand, CPI inflation increased from 1.4% (yoy) in January 2019 to 1.5% (yoy) in
February 2019 (Graph 2.7). Comparatively low headline inflation was also caused by a correction in the oil price. Furthermore, milder inflationary pressures are reflected in the inflation projection that was downgraded by the European Central Bank (ECB).

Japan's economy is projected to continue moderating beyond previous expectations in 2019 (Graph 2.8). The latest indicators point to downside risks in the economy, precipitated by production and consumption, apropos of the planned hike in the consumption tax. Exports are also declining due to restrained export demand, stemming partially from economic moderation in China as a major trading partner as well as fallout from the trade tensions between the United States and China.

Inflation in Japan remains well below the target set by the Bank of Japan (BOJ). In January 2019, headline inflation stood at 0.2% (yoy), down slightly from 0.3% (yoy) the month earlier (Graph 2.9). Nevertheless, core inflation was observed to increase in January 2019, edged up by accommodation and auto insurance. Medium-term inflation expectations are predicted to increase towards the BOJ’s target, supported by adaptive factors, namely higher inflation realisation and forward looking.

India’s economy is also experiencing moderation (Graph 2.10). The slowdown in India is the result of a sharp consumption decline, a net export contraction and a government with less propensity to spend. In addition, a revision to the method of calculating GDP by the Central Statistics Office (CSO) for the current and previous periods has also influenced the economic growth reading in India. Weaker consumption has manifested in lower automotive sales as well as non-oil and non-gold imports. Consumer loan issues at a nonbank financial company (NBFC) have also made the banking industry more selective when lending. CPI inflation in India was recorded at
2.6% (yoy) in January 2019, up from 2.0% (yoy) the month earlier (Graph 2.11).

GLOBAL FINANCIAL MARKET RISK

Global financial market uncertainty risk has eased yet continues to demand vigilance (Graph 2.12). A more gradual pace of Federal Funds Rate (FFR) hikes (Graph 2.13) has abated global financial market uncertainty slightly along with monetary policy normalisation in advanced economies that is not as tight as previously expected. Nevertheless, several risks remain including the trade tensions between the United States and China, ongoing uncertainty regarding the Brexit outcome and deeper global economic moderation. Less global uncertainty has drawn capital flows to emerging market economies (EMEs) including Indonesia (Graph 2.14).

GLOBAL COMMODITY MARKETS

Consistent with global economic moderation, world trade volume (WTV) has also declined. Furthermore, the imposition of import tariffs on Chinese exports bound for the United States has also disrupted world trade volume. Export-import activities in advanced economies have also slowed in line with lacklustre economic growth in advanced economies. On the other hand, export-import activities in developing economies have also experienced a correction after spiking due to frontloading policy in China.

In line with a flattening of world trade volume growth, international commodity prices are also in decline, international oil prices included (Table 2.1 and Graph 2.15). Lower commodity prices are reflected in the Indonesia Export Price Index (IHKEI) as of 1st March 2019. Softer coal, copper and nickel prices have been caused by weaker global demand. Meanwhile, the oil price has
dropped as a result of low adherence to the agreed OPEC+ cuts coupled with increasing oil production in the United States despite decreasing global demand.

**ECONOMIC GROWTH**

At home, solid economic growth is predicted on the back of domestic demand. Robust consumption growth is expected to endure, supported by maintained public purchasing power and consumer confidence, fiscal stimuli through social spending, as well as election spending (Table 2.2). Investment has slowed slightly in the first quarter of 2019 in line with seasonal trends at the beginning of the year, yet investment growth is expected to regain momentum in subsequent periods due to infrastructure projects. Notwithstanding, the contribution of net exports has continued to decrease in line with global economic moderation and sliding commodity prices. Export declines are largely attributed to agriculture and mining as well as a number of manufacturing goods. Moving forward, the policy mix instituted by Bank Indonesia, the Government and other relevant authorities will continue to support domestic demand and maintain economic growth momentum. Consequently, Bank Indonesia projects economic growth in 2019 in the 5.0-5.4% range.

**Table 2.1 Indonesian Export Commodity Price Index**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>YTD 2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper</td>
<td>-10.5</td>
<td>27.1</td>
<td>6.7</td>
<td>-6.4</td>
</tr>
<tr>
<td>Coal</td>
<td>6.8</td>
<td>48.2</td>
<td>2.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Crude Oil</td>
<td>21.3</td>
<td>5.7</td>
<td>-19.2</td>
<td>-5.2</td>
</tr>
<tr>
<td>Nickel</td>
<td>-2.2</td>
<td>28.1</td>
<td>16.8</td>
<td>9.2</td>
</tr>
<tr>
<td>Tin</td>
<td>-15.4</td>
<td>8.9</td>
<td>27.8</td>
<td>-7.8</td>
</tr>
<tr>
<td>Aluminium</td>
<td>-3.5</td>
<td>22.9</td>
<td>7.4</td>
<td>-11.2</td>
</tr>
<tr>
<td>Coffee</td>
<td>4.3</td>
<td>-2.9</td>
<td>-15.4</td>
<td>-10.7</td>
</tr>
<tr>
<td>Others</td>
<td>1.0</td>
<td>6.8</td>
<td>1.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Indonesian Export Commodity Price Index</td>
<td>5.4</td>
<td>21.7</td>
<td>-2.8</td>
<td>-0.6</td>
</tr>
</tbody>
</table>

**Graph 2.15 Oil Price**

Source: Bloomberg *Data as of March 11th, 2019

**Table 2.2 Economic Growth by Expenditure**

<table>
<thead>
<tr>
<th>Components</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I</td>
<td>II</td>
<td>III</td>
<td>IV</td>
</tr>
<tr>
<td>Household Consumption</td>
<td>5.01</td>
<td>4.94</td>
<td>4.95</td>
<td>4.91</td>
</tr>
<tr>
<td>Non-Profit Institutions Serving Households</td>
<td>6.64</td>
<td>8.08</td>
<td>8.53</td>
<td>6.04</td>
</tr>
<tr>
<td>Government Consumption</td>
<td>-0.14</td>
<td>2.69</td>
<td>1.94</td>
<td>3.46</td>
</tr>
<tr>
<td>Investment</td>
<td>4.47</td>
<td>4.77</td>
<td>5.34</td>
<td>7.08</td>
</tr>
<tr>
<td>Building Investment</td>
<td>5.18</td>
<td>5.87</td>
<td>6.07</td>
<td>6.28</td>
</tr>
<tr>
<td>Non-building Investment</td>
<td>2.43</td>
<td>1.46</td>
<td>3.25</td>
<td>9.47</td>
</tr>
<tr>
<td>Exports</td>
<td>-1.66</td>
<td>8.36</td>
<td>2.73</td>
<td>16.48</td>
</tr>
<tr>
<td>Import</td>
<td>-2.41</td>
<td>4.78</td>
<td>0.18</td>
<td>15.40</td>
</tr>
<tr>
<td>GDP</td>
<td>5.03</td>
<td>5.01</td>
<td>5.01</td>
<td>5.06</td>
</tr>
</tbody>
</table>

Source: BPS
Private consumption is projected to grow quickly in line with maintained public purchasing power and consumer confidence. Solid household consumption growth is enduring on maintained public purchasing power accompanied by low and controlled inflation. Household consumption gains stem from rising incomes, particularly amongst low-income earners, as evidenced increases in the farmers’ terms of trade (ToT) and farmworkers’ real wages (Graph 2.16). Middle-income earners are also enjoying higher salaries, as reflected by positive and rising consumer confidence (index > 100) amongst those spending Rp2-5 million per month (Graph 2.17). In addition, strong retail and motorcycle sales also point to increasing household consumption (Graph 2.18). The key drivers of retail sales are clothing as well as food and beverages.

The positive impact of preparations for the general election together with fiscal stimuli from the government have supported private consumption gains. Spending on preparations for the presidential and legislative elections continue to boost spending by non-profit institutions serving households (NPISH), which feeds through to increase household consumption. Spending on the elections in 2019 is expected to surpass that in 2014 as a result of longer campaigns as well as more political parties and legislative members contesting. Fiscal stimuli in the form of the social assistance program (bansos) maintained public purchasing power amongst low-income earners in the first quarter of 2019, thereby contributing to household consumption.

The Government maintained solid consumption growth on the back of procurement and the social assistance program. Positive government consumption growth originated from procurement to support election preparations as well as the extended social assistance program, which encompasses...
the Family Hope Program (Graph 2.19). The Central Government also disbursed regional transfers and village funds at the beginning of the new year, thus increasing realisation of the General Allocation Fund (DAU) regionally. Meanwhile, personnel expenditure was lower than expected because the 5% increment in civil servants’ salaries will not take effect until April 2019.

**Building and non-building investment growth remain subdued.** Building investment growth is expected to decelerate due to a limited number of new physical development projects on the horizon in the first quarter of 2019. Most of the Government’s current infrastructure projects are ongoing from the previous period. Furthermore, capital spending by the Government remains low at the beginning of the new year. Restrained building investment growth was also confirmed by declining cement sales in line with less infrastructure construction activity (Graph 2.20).

**Slower non-building investment growth is the result of moderation in the manufacturing industry and mining sector.** Weaker non-building investment growth was identified from lower imports of capital goods compared with conditions in the same period one year earlier. Imports of capital goods to support manufacturing, such as machinery and industrial equipment, have also declined. The downswing experienced in the manufacturing sector is reflected in the downward trend of the Purchasing Managers Index (PMI) published by Markit Economics (Graph 2.21). Furthermore, capital goods imports in the form of transportation equipment and heavy equipment also decreased in the reporting period as mining activity slowed as a result of sliding international commodity prices and dwindling global demand (Graph 2.22).

**Export growth is projected to slow on global economic moderation as well as lower world trade volume and**
international commodity prices (Graph 2.23). The broad-based export decline continued to affect agricultural, mining and manufacturing commodities (Graph 2.24). Agricultural exports were weighed down by crude palm oil (CPO), natural rubber as well as pulp and paper. Mining exports contracted due to coal, which experienced a deeper contraction after the production quota was reduced. Meanwhile, manufacturing exports are exposed to lower global demand, particularly from advanced trading partners such as the United States and Europe in line with lower growth. Furthermore, exports of textiles and textile products as well as chemicals also declined, contrasting positive export growth of iron and steel to meet demand for ongoing infrastructure development projects.

**Imports have begun to track a slowing trend in line with the policy response instituted to control the current account deficit at a manageable level.** Policy synergy between Bank Indonesia, the Government and other relevant authorities to control imports and stimulate exports has begun to dampen import growth. Import reduction policy consists of measures to diversify energy sources through the use of Biodiesel 20 (B20), postpone infrastructure projects with a high import content as well as apply domestic content requirements (TKDN), amongst others.

**Raw materials and consumer goods were the main drag on lower imports** (Graph 2.25). Raw material imports declined in accordance with restrained manufacturing industry performance and moderation in the mining sector. Raw material imports for industry, such as processed foods and beverages, as well as processed raw materials for industry experienced declines. This is also consistent with imports of spare parts and transportation equipment for the mining industry, which also decreased. Lower imports of consumer goods also contributed to the downward import trend, particularly in terms of processed foods.
and beverages for households, durable goods and cars.

**INDONESIA BALANCE OF PAYMENTS**

Indonesia’s trade balance recorded a surplus in the reporting period as non-oil and gas imports retreated. The trade surplus stood at USD0.33 billion in February 2019, upending the previous USD1.06 billion deficit posted in January 2019 (Graph 2.26). The surplus stemmed from a non-oil and gas trade surplus, while the oil and gas trade deficit remained relatively stable on the previous period.

The non-oil and gas trade balance recorded a surplus because the non-oil and gas import decline exceeded the non-oil and gas export decline. The non-oil and gas trade surplus stood at USD0.79 billion in February 2019, reversing the previous USD0.64 billion deficit. Such developments were explained by a USD2.69 billion decrease of non-oil and gas imports that surpassed the USD1.25 billion decrease of non-oil and gas exports. Non-oil and gas imports were held back by electrical machinery and equipment, iron and steel as well as machinery and mechanical appliances. Meanwhile, non-oil and gas exports were weighed down by mineral fuel, animal and vegetable fats and oils as well as metal ore, crust and dust. Falling non-oil and gas exports were also linked to the impact of global economic moderation and lower export prices for Indonesian commodities.

The oil and gas trade deficit remained stable. The oil and gas trade balance recorded a USD0.46 billion deficit in February 2019, relatively unchanged compared with the USD0.42 billion deficit the month earlier. The main contributor to the oil and gas trade deficit was a USD0.15 billion decline of oil and gas exports combined with a USD0.10 billion decline of oil and gas imports in the reporting period. Gas was the main drag on oil and gas

![Graph 2.25 Non-Oil and Gas Import (Real)](source)

![Graph 2.26 Trade Balance](source)
exports in line with lower export volume and gas prices. Meanwhile, oil and gas imports were reduced on crude oil as import volume and prices decreased.

**Foreign capital inflows were maintained, which improved Indonesia’s balance of payments (BOP) in the first quarter of 2019.** Non-resident capital inflows reached USD4.03 billion in February 2019 (Graph 2.27). Non-resident capital flowed to the public sector, primarily to rupiah SUN instruments. Furthermore, other portfolio investment instruments, including sukuk, Bank Indonesia Certificates (SBI) and Government Islamic Securities (SBSN), also recorded a net inflow. On the private sector, non-resident investors booked a net outflow from in stocks portfolio investment in line with widespread global uncertainty and escalating trade tensions between the United States and other trading partners.

**The position of reserve assets increased on the previous period.** Indonesia’s international reserves were recorded at USD123.3 billion at the end of February 2019, up from USD120.1 billion at the end of the previous period (Graph 2.28), equivalent to 6.9 months of imports or 6.7 months of imports and servicing government external debt, which is well above the international standard of three months. Government issuances of global bonds boosted foreign exchange reserves in February 2019, coupled with other foreign exchange receipts as well as oil and gas foreign exchange earnings. Moving forward, Bank Indonesia considers the position of FX reserves adequate, backed by domestic economic stability with a promising outlook and positive export performance. Policy synergy will constantly be strengthened to reinforce external resilience. Efforts to strengthen exports will continue, by stimulating the tourism sector and controlling imports, in order to bring the current account deficit in 2019 to 2.5% of GDP. Furthermore, policy will also be oriented towards drawing
capital inflows to finance the current account deficit.

**RUPIAH EXCHANGE RATE**

The rupiah continues to appreciate as external sector performance improves. The strong rupiah is congruent with other regional currencies and has been maintained by less global financial market uncertainty. In February 2019, the rupiah appreciated by an average of 0.87%. As of 19th March 2019, the rupiah closed at a level of Rp14,230 per US dollar, climbing 1.05% (ptp) or 0.85% on average (Graph 2.29 and Graph 2.30).

Foreign capital inflows were drawn to tradeable government securities (SBN), contrasting the net outflow booked in the stock market. Such developments were in line with positive sentiment after GDP data released in the fourth quarter of 2018 was better than expected. In addition, external sentiment also improved in line with the prospect of trade negotiations between the United States and China and the release of the FOMC minutes that confirmed a less hawkish policy stance by the US Federal Reserve, which influenced rupiah dynamics along with other emerging market currencies. Nevertheless, pressures on the rupiah continue to demand vigilance, amongst others stoked by concerns over global economic moderation, primarily the ECB’s significantly downgraded growth projection for the euro area. In February 2019, non-residents booked a net inflow totalling Rp30.8 trillion, similar to the net inflow of Rp30.5 trillion recorded in January 2019. The majority of non-resident capital inflows in February 2019 were drawn to SUN instruments, totalling Rp31.7 trillion, followed by Bank Indonesia Certificates (SBI) with Rp1.4 trillion and Government Islamic Securities (SBSN) with Rp1.1 trillion. Conversely, non-resident investors booked a net outflow from stock assets totalling Rp3.4 trillion.
Rupiah appreciation was accompanied by lower volatility. Rupiah volatility in February 2019 declined compared with conditions in January 2019. In March 2019 (as of 19th March 2019), however, average monthly rupiah volatility increased yet remained below that of several peer currencies, namely the South African rand, Brazilian real and Indian rupee. Annually, rupiah volatility in 2019 is still lower than that of the South African rand, Brazilian real and Turkish lira. Rupiah volatility as of 19th March 2019 was also still below the average of peer countries at 11.43% (Graph 2.31).

Moving forward, Bank Indonesia expects to maintain rupiah exchange rate stability in line with the currency’s fundamental value as the external sector outlook improves, while to maintaining market mechanisms. Supporting exchange rate policy effectiveness and simultaneously strengthening domestic financing, Bank Indonesia will continue to accelerate financial market deepening efforts, particularly in the money market and foreign exchange market.

INFLATION

Inflation is trending downwards and remains under control within the target corridor for 2019 at 3.5%±1% (yoy). The Consumer Price Index (CPI) experienced 0.08% (mtm) deflation in February 2019, down from 0.32% (mtm) the month earlier. CPI deflation stemmed from deflationary pressures on volatile foods (VF) coupled with low core inflation and administered prices (AP) inflation (Graph 2.32). Annually, headline inflation was recorded at 2.57% (yoy) in February 2019, decreasing from 2.82% (yoy) in January 2019. Yearend inflation in 2019 is forecasted within the target corridor, namely 3.5%±1% in line with efforts to strengthen policy coordination between the Government and Bank Indonesia in order to control inflation, focusing on volatile foods.
Volatile foods recorded deflation in line with seasonal trends in February 2019. Volatile foods (VF) posted 1.30% (mtm) deflation in the reporting period after experiencing 0.97% (mtm) inflation the month earlier (Graph 2.33). VF deflation stemmed primarily from price corrections affecting red chillies, purebred chicken meat, purebred chicken eggs, shallots, bird’s eye chillies and carrots. In contrast, higher prices of rice, garlic and instant noodles negated deeper VF deflation (Table 2.3). Red chillies have experienced price corrections during the past four consecutive months as supply continues to increase. Furthermore, lower prices of corn-based animal feeds have translated into deflationary pressures on purebred chicken meat and eggs. Shallot prices are falling in line with the onset of the harvesting season at the main production hub, namely Brebes regency. In contrast, garlic prices are rising on low imported supply and rising global prices. Higher rice prices have slowed compared with conditions the month earlier, however, due to the arrival of the harvesting season at several production centres located in West Java and East Java, with the peak harvest predicted to occur in March and April 2019. Annually, VF inflation stood at 0.33% (yoy) in February 2019, down from 1.76% (yoy) in January 2019.

Inflationary pressures on administered prices (AP) were mild in the reporting period due to cheaper fuel. AP inflation was recorded at 0.06% (mtm) in February 2019, reversing the 0.12% (mtm) deflation the month earlier (Graph 2.34). The main contributors to AP deflation in the reporting period were airfares, railway fares and filtered clove cigarettes (Table 2.4). Fuel prices experienced a correction in line with non-subsidised fuel prices on 10th February 2019 by an average of Rp325/litre together with lower Premium fuel prices in Java, Madura, and Bali, falling by an average of Rp100/litre. Annually, AP inflation was recorded at 3.38% (yoy), relatively unchanged from the previous period at 3.39% (yoy).
Core inflation decreased on rational inflation expectations anchored to the target corridor. On a monthly basis, core inflation decelerated to 0.26% (mtm) in February 2019 from 0.30% (mtm) in January 2019 (Graph 2.35). The salient contributors to core inflation in the reporting period were house rentals, rice with a side dish, gold jewellery, motor vehicles and homeworkers’ wages. Core inflation was controlled in February 2019 due to policy consistency by Bank Indonesia to anchor inflation expectations as well as maintain exchange rate stability in line with the rupiah’s fundamental value.

Furthermore, anchored inflation expectations were also corroborated by the March edition of the Consensus Forecast (CF), which revealed stable expectations of 3.4% (yoy) (Graph 2.36). Annually, core inflation stood at 3.06% (yoy), unchanged from the previous period.

Spatially, most regions recorded CPI deflation in February 2019. Sumatra and Eastern Indonesia posted 0.26% (mtm) and 0.18% (mtm) deflation respectively, while low inflation was maintained in Java at 0.01% (mtm). Annually, therefore, nearly all provinces successfully controlled headline inflation within the national target corridor of 3.5%±1%, except Central Sulawesi, Papua, and North Kalimantan (Figure 2.1), where high inflation was primarily attributable to airfares and several fresh fish products due to inclement weather for fishing. In addition, a deadly natural disaster in Central Sulawesi during the latter half of 2018 also contributed largely to the high provincial inflation.
FINANCIAL MARKETS

Bank Indonesia’s monetary policy stance was effectively transmitted to the economy against a backdrop of maintained financial system stability, increasing intermediation and adequate liquidity. As of February 2019, monetary policy was successfully transmitted through the interest rate channel, as reflected by convergence between the O/N interbank rate and the BI 7-Day (Reverse) Repo Rate. The banking industry was still inclined to raise deposit rates despite early indications of slower increments. In contrast, lending rates are tracking a downward trend notwithstanding the slight bump recorded in January 2019. Adequate liquidity has been maintained to support economic activity, as indicated by money supply growth that is in line with GDP growth. In general, financial system stability has been maintained, while the banking industry expands the intermediation function and contains the credit risk. Economic financing through the financial markets also increased in February 2019, buoyed by foreign capital inflows.
**Interest Rate Channel**

Overnight interbank rate convergence with the BI 7-Day (Reverse) Repo Rate was maintained in February 2019. The average daily O/N interbank rate was 5.86% in the reporting period, unchanged from the previous month. In general, adequate money market liquidity was also sustained, as reflected by an O/N interbank rate that remained within -25 to +7 basis points of the BI 7-Day (Reverse) Repo Rate in February 2019 with an average spread of -14bps between the two rates, stable on the previous period (Graph 2.37).

**Adequate liquidity in the banking system helped to contain overnight interbank rate volatility in the reporting period.** The average daily max-min spread of the O/N interbank rate was stable in February 2019 at 28bps, relatively unchanged from 26bps the month earlier (Graph 2.38). O/N interbank rate volatility was controlled by adequate liquidity in the banking system, as corroborated by a high average daily interbank money market transaction volume, reaching Rp17.9 trillion.

The banking industry continued to raise deposit rates despite early indications of slower increments. The weighted average deposit rate in January 2019 was 6.90%, up 2bps on the 6.88% in the previous period. The banks have consistently raised deposit rates since the second quarter of 2018, mirroring the rising cost of funds in the banking sector (Graph 2.39). Nevertheless, there are early indications that the rising deposit rate trend may finally be coming to an end, especially in terms of short-term tenors, as reflected by the absence of further increases in the interest rate on 1-month term deposits in January 2019. On a monthly basis, the banks raised deposit rates on 12-month tenors most significantly, namely by 6bps. By bank group, BUKU 2, 3 and 4 banks opted to raise deposit rates in the reporting period, led by BUKU 4 banks with...
4bps. Consequently, the weighted average deposit rate has increased by 83 basis points since the end of 2017.

**Conversely, lending rates continued to track a downward trend despite experiencing a slight bump in January 2019.** The weighted average lending rate was dragged down by lower interest rates on consumer loans, investment loans and working capital loans. Despite decreasing, the weighted average lending rate in January 2019 was recorded at 10.90%, up from 10.81% the month earlier. The increase was attributable to working capital loans, for which the weighted average interest rate climbed to 10.56% from 10.36% the month earlier (Graph 2.40). Based on bank group, BUKU 1, 3 and 4 banks raised lending rates in the reporting period, while BUKU 2 banks reduced lending rates. Consequently, the weighted average lending rate has increased by 40 basis points since the end of 2017.

**Economic Liquidity**

**M2, as a measure of liquidity in the economy, decelerated in the reporting period.** M2 stood at Rp5,645.8 trillion in January, with growth slowing to 5.5% (yoy) from 6.3% (yoy) the month earlier. All M2 components contributed to the decline, namely narrow money (M1), quasi-money and securities other than shares, decreasing respectively to 3.8% (yoy), 6.0% (yoy) and 10.3% (yoy) from 4.8% (yoy), 6.8% (yoy) and 11.8% (yoy) in the previous period (Graph 2.41).

Based on the affecting factors, a contraction of fiscal operations and a deeper decline of Net Foreign Assets (NFA) contributed to M2 moderation (Graph 2.42). The ongoing NFA contraction deepened to -9.3% (yoy) from -6.4% (yoy) the month
earlier, weighed down by slower growth of foreign claims as the position of reserve assets decreased in January 2019. Furthermore, the government maintained contractionary fiscal operations, as reflected by a further decrease from -3.3% (yoy) to -14.1% (yoy) of net claims on the Central Government in the reporting period in line with an uptick recorded in central government demand deposits held at Bank Indonesia. Meanwhile, growth of outstanding loans disbursed by the banking industry increased in January 2019 to 11.9% (yoy) from 11.7% (yoy) in the previous period.

**Bank Intermediation**

**Financial system stability has been maintained as the banking industry effectively mitigates credit risk.** The Capital Adequacy Ratio (CAR) of the banking industry remained high at 23.1% in January 2019, while the liquidity ratio was unchanged from December 2018 at 19.3% (Graph 2.43). In addition, the banking industry maintained a low level of Non-Performing Loans (NPL), namely 2.6% (gross) or 1.2% (net).

**Financial system stability was maintained as the bank intermediation function improved in January 2019.** Outstanding loans disbursed by the banking industry grew 12.0% (yoy) in January 2019, up from 11.8% (yoy) at the end of 2018. The gain was driven by investment loans, which accelerated to 13.1% (yoy) from 10.9% (yoy) in December 2018. In contrast, consumer loans and working capital loans moderated to 9.9% (yoy) and 12.6% (yoy) respectively (Graph 2.44). By sector, the others sector (household consumption), manufacturing, trade and construction were the key contributors to faster credit growth in January 2019 (Graph 2.45). Moving forward, Bank Indonesia projects credit growth to accelerate towards the top end of the 10-12% (yoy) range.
The banking industry reported stable deposit growth while raising deposit rates. Bank deposits grew 6.4% (yoy) in January 2019, relatively stable compared with conditions in the previous period (Graph 2.46). Deposit growth was supported by term deposits, which accelerated to 7.6% (yoy) from 5.8% (yoy) the month earlier. Nonetheless, growth of demand deposits and savings deposits softened to 3.7% (yoy) and 6.7% (yoy) from 6.6% (yoy) and 7.3% (yoy) respectively. Looking ahead, Bank Indonesia projects deposit growth in the 8-10% (yoy) range.

Non-bank Financing

Non-bank economic financing has performed well at the beginning of the new year. Economic financing through the capital market, such as initial public offerings (IPO) and rights issues, corporate bonds, medium-term notes (MTN) and Negotiable Certificates of Deposit (NCD) as of February 2019 stood at Rp26.4 trillion (gross), up from Rp26.2 trillion (gross) in the same period of 2018. Such favourable developments were explained by improving stock market performance on the back of high-value rights issues in the services & investment sector. Furthermore, MTN and NCD also increased in terms of issuances and value. In contrast, corporate bond issuances contracted due to a rising cost of funds that prompted caution in the corporate sector in terms of seeking financing from bonds.

Stock Market

The Jakarta Composite Index (JCI) was restrained at the beginning of the year in line with growing external uncertainty. After trading up in January 2019, the JCI experienced a 1.4% (mtm) correction and closed at a level of 6443.35 in February 2019. The correction was triggered by escalating external uncertainty due to the wait-and-see...
nature of the trade negotiations between the United States and China along with concerns stoked by economic moderation in China and Europe as well as the release of economic data in several advanced economies that was below market expectations (Graph 2.47). In February 2019, non-resident funds booked a net outflow (sell) from the domestic stock market totalling Rp3.4 trillion. Nonetheless, the significant influx of foreign capital flows in January 2019, to the tune of Rp13.8 trillion, maintained a cumulative inflow of Rp10.5 trillion in the domestic stock market. Consequently, the portion of non-resident holdings decreased to 30.6% in February 2019 (Graph 2.48).

**Domestic bourse developments defied global stock market gains in February 2019.** The JCI resisted prevailing regional dynamics in other peer countries, including Malaysia, Thailand and Vietnam, where stock markets rallied. Furthermore, the majority of stock markets in advanced economies also posted gains in February 2019. Despite experiencing a correction, the JCI still outperformed the 3.8% (mtm) correction reported in the Philippines.

**By sector, nearly all economic sectors traded down in February 2019.** The deepest JCI corrections were felt in the miscellaneous industries and agricultural sector, namely 11.9% (mtm) and 8.4% (mtm) respectively. Moreover, mining and basic manufacturing stocks also declined, influenced by downgraded export projections for primary goods as well as other manufacturing commodities due to global economic moderation and lower commodity prices. Notwithstanding, trade and construction sector stocks posted gains, propped up by solid domestic demand (Graph 2.50).

**SBN Market**

**Lower SBN yields pointed to corresponding market gains in February 2019.** SBN performance improved, as indicated by an
even decline of yields over all tenors. Short, medium and long-term yields fell 35bps, 32bps and 32bps to 6.97%, 7.81% and 8.33% respectively. In addition, the benchmark 10-year yield dropped 20bps to a level of 7.82% (Graph 2.51). Maintained inflow to the SBN market buoyed performance in line with optimism spurred by the promising domestic economic outlook. Furthermore, the net buy booked by non-resident investors is testament to how effective the policy mix instituted to sustain the attractiveness of domestic financial markets in the eyes of foreign investors has been. In February 2019, non-residents booked a net buy totalling Rp32.8 trillion, doubling the Rp16.7 trillion net buy booked the month earlier. Cumulatively, therefore, inflow to the SBN market as of February 2019 reached Rp49.6 trillion, increasing significantly from the Rp12.1 trillion posted in the same period one year earlier. Consequently, non-resident holdings of tradeable government securities (SBN) increased to 37.04% in the reporting period (Graph 2.52).
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