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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Executive Summary

The BI Board of Governors agreed on 24th and 25th April 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 continuing efforts to strengthen the external stability of the national economy. Meanwhile, to stimulate domestic demand, Bank Indonesia expanded its accommodative policy stance as follows:

1. Increasing available liquidity and supporting financial market deepening by strengthening the monetary operations strategy;

2. Enhancing retail payment efficiency by expanding National Clearing System (SKNBI) services, namely through an extended settlement time with faster settlement, an increase in the nominal transaction ceiling and lower tariffs;

3. Increasing the supply of Domestic Non-Deliverable Forward (DNDF), in particular by simplifying the regulations concerning underlying transactions;

4. Implementing market operator regulation in the money market and foreign exchange market;

5. Developing the Commercial Papers (SBK) market as an alternative source of short-term funding for the corporate sector;

6. Expanding electronification of the noncash social aid program (bansos), village fund program, transportation sector and fiscal operations.

Bank Indonesia is also strengthening coordination with the Government and other relevant authorities to maintain economic stability, particularly in terms of controlling inflation and reducing the current account deficit, while simultaneously building economic growth momentum through solid domestic demand, including stimulating exports and tourism as well as attracting foreign capital inflows.

Global economic gains are occurring more slowly than expected with reduced financial market uncertainty. Economic growth in the United States is moderating on lower incomes and retreating business confidence, limited fiscal stimuli as the impact of the corporate tax cuts fades, and ongoing structural labour market issues. Similarly, China's economy is still decelerating although the authorities have implemented expansive fiscal policy in the form of tax reductions and infrastructure development. Economic growth in Europe remains constrained by weak export performance and unresolved financial sector issues, coupled with the structural challenge of an ageing population. Lower-than-expected economic growth has also been confirmed by countries in Latin America and the Middle East. Congruent with global economic moderation, world trade volume and international commodity prices are tracking downward trends, notwithstanding the oil price, which increased during the previous period due to geopolitical factors. The global monetary policy response has not been as tight as previously anticipated, thus alleviating global financial market uncertainty. On one hand, global economic developments represent a clear challenge in terms of stimulating exports, yet on the other hand, reduced global economic uncertainty has attracted foreign capital flows to developing economies, including Indonesia.
Bank Indonesia projects solid economic growth in the first quarter of 2019, driven by domestic demand. Strong consumption growth is expected to persist on maintained public purchasing power and continuing fiscal stimuli, including social aid disbursements and election spending. Investment has declined slightly in line with seasonal trends at the beginning of the year yet is predicted to regain momentum in subsequent periods, supported by improving business confidence and ongoing infrastructure development projects. Nevertheless, global economic moderation and sliding international commodity prices have restrained the contribution of net exports. Moving forward, the promising domestic economic outlook is supported by solid domestic demand in line with maintained confidence in the national economy. Furthermore, the policy mix instituted by Bank Indonesia, the Government and other relevant authorities will continue to sustain economic growth momentum, which Bank Indonesia projects in the 5.0-5.4% range in 2019.

Indonesia’s balance of payments (BOP) is predicted to record a surplus in the first quarter of 2019, thereby bolstering external stability. The favourable BOP outlook is based on a narrower current account deficit coupled with a significant capital and financial account surplus. The prospect of a narrower current account deficit is supported by a notable bump in the trade surplus from USD0.33 billion in February 2019 to USD0.54 billion in March 2019. The increase stemmed from a larger non-oil and gas trade surplus combined with a lower oil and gas trade deficit. Meanwhile, an influx of foreign capital inflows, totalling USD5.5 billion through to March 2019, boosted the significant capital and financial account surplus. Consequently, the position of reserve assets stood at USD124.5 billion at the end of March 2019, equivalent to 7.0 months of imports or 6.8 months of imports and servicing government external debt, which is well above the international standard of three months. Looking forward, policy synergy will remain focused on efforts to reinforce external resilience. Measures to stimulate exports and tourism as well as control imports will be maintained in 2019, thus sustaining 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 23rd April 2019, the rupiah strengthened 1.17% (ptp) compared with conditions at the end of March 2019 or by an average of 0.58% compared with the March 2019 average. In comparison with exchange rates in 2018, the rupiah has appreciated by 2.17% (ptp) or by an average of 0.80%. The strong rupiah is closely linked to a deluge of foreign capital inflows to the domestic financial markets, including a sustained flow of non-resident capital to the domestic stock market in April 2019. Looking ahead, Bank Indonesia predicts stable rupiah exchange rates and maintained market mechanisms in line with the promising external sector outlook, supported by a favourable domestic economic outlook and milder financial market uncertainty risk. 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.

Low and controlled inflation was confirmed in March 2019. The Consumer Price Index (CPI) recorded 0.11% (mtm) inflation in March 2019 or 2.48% (yoy) annually, after experiencing seasonal deflation of 0.08% (mtm) the month earlier, or 2.57% (yoy) inflation. Inflation was controlled in March 2019 with the help of slower core inflation and another period of deflationary pressures on volatile foods (VF). In contrast, however, rising airfares edged up inflationary pressures on administered prices (AP). The trend of lower inflation over the past few years, including
controlled price pressures on volatile foods, has successfully maintained public purchasing power, especially amongst low-income earners. Moving forward, Bank Indonesia will consistently ensure price stability and strengthen policy coordination with the Central and Regional Governments in order to control low and stable inflation within the target range, namely 3.5%±1% in 2019. Furthermore, Bank Indonesia will coordinate intensively with the Government and other relevant authorities to control inflation during the holy fasting month of Ramadan and Eid-ul-Fitr 1440 H.

Financial system stability has been maintained amidst a stable intermediation function and contained credit risk. The Capital Adequacy Ratio (CAR) of the banking industry remained high at 23.4% in February 2019, accompanied by a low level of Non-Performing Loans (NPL), namely 2.6% (gross) or 1.2% (nett). In terms of the intermediation function, the banking industry reported stable growth of outstanding loans in the reporting period at 12.1% (yoy), up slightly from 12.0% (yoy) in February 2019. In addition, deposit growth reported by the banking industry accelerated to 6.6% (yoy) in February 2019 from 6.4% (yoy) in January 2019. Meanwhile, the ratio of liquid assets to deposits stood at 22.3% in February 2019, indicating adequate liquidity in the banking system. The performance of public listed corporations improved in the reporting period in line with increasing activity, as reflected by higher 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 and increasing 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 noncash, remain uninterrupted. Cash payments posted positive growth in the reporting period with the position of currency in circulation growing 5.6% (yoy) in March 2019 and non-cash payments consistently enjoying a faster uptake. Retail transactions through ATM/debit cards, credit cards and e-money accelerated to 17.1% (yoy) in February 2019, with e-money transactions growing impressively by 77.6% (yoy). Retail payments still dominate ATM/debit card transactions, accounting for 94.8% of total retail payment system transactions and growing by 16.6% (yoy). The use of e-money is also still gaining popularity, boosted by the current shift in payment preferences as well as the proliferation of goods purchased online through e-commerce. Bank Indonesia is continuing to expand the electronification program, targeting social aid and village fund disbursements, different transportation modes and fiscal operations, which is expected to strengthen the payment system’s role in terms of facilitating productive economic activity. Finally, Bank Indonesia will ensure adequate supply of rupiah banknotes and coins in appropriate denominations throughout the Indonesian archipelago during Ramadan and Eid-ul-Fitr 1440 H.
GLOBAL ECONOMIC DEVELOPMENTS

Global economic gains are occurring more slowly (Graph 2.1). Economic moderation is affecting Europe, India, countries in Latin America and the Middle East-North Africa. Congruent with the global economic slowdown, world trade volume and international commodity prices are tracking downward trends, notwithstanding the oil price, which increased during the previous period due to geopolitical factors. Meanwhile, the global monetary policy response has not been as tight as previously anticipated and trade tensions between the United States and China have begun to thaw, thus alleviating global financial market uncertainty. On one hand, global economic developments represent a clear challenge in terms of stimulating exports, yet on the other hand, reduced global economic uncertainty has attracted foreign capital flows to developing economies, including Indonesia.

Economic consolidation is projected in the United States during 2019. Economic growth in the United States is moderating on lower incomes and retreating business confidence, limited fiscal stimuli as the impact of the previous corporate tax cuts fades, and ongoing structural labour market issues. By component, the US economic downturn is primarily attributable to weaker consumption and investment (Graph 2.2). Consumption growth is expected to slow in line with personal income, which has fallen with lower compensation due to flagging stock performance and structural labour issues, such as a low participation rate and stagnating productivity. Investment is predicted to decelerate as a result of the fading impact of previous corporate tax cuts and simmering trade tensions between the United States and China.
States and China. Export gains are restrained by economic moderation in the United States’ trading partner countries, the European Union and China in particular. Furthermore, imports have been affected by expectations of flatter domestic demand. Meanwhile, production indicators continue to track downward trends.

**Mild inflationary pressures in the United States are accompanied by lower inflation expectations.** Lower services inflation was the main drag on headline inflation. PCE inflation and PCE core inflation fell in January 2019 to 1.4% and 1.8% respectively, which is below the Fed’s target range (Graph 2.3). PCE core inflation was edged down by ex-shelter services inflation in line with slower growth of personal income. CPI core inflation also declined in March 2019 to 2.0%, induced by lower healthcare services inflation. Moving forward, core inflation is expected to track a decelerating trend in line with an amendment to the Affordable Care Act (ACA) – a lower reimbursement level for in-patient access as well as Medicare Access and CHIP Reauthorisation (MARCA) – and lower physician fees. Inflation expectations are also predicted to decrease in line with economic moderation.

**China’s economy is projected to moderate (Graph 2.4)** despite expansive fiscal policy through tax cuts and infrastructure development. Softer economic growth in projected for 2019, primarily due to slower export and consumption growth. Exports have declined, particularly US bound exports, as a corollary of the import tariffs that will remain effective until September 2019. Furthermore, a lower PMI in various major destinations for Chinese exports points to dwindling external demand. Consumption has also been shown to slow by weaker growth of automotive sales, the property sector and short-term household loans, along with rising mortgage debt. Additionally, the effect of income tax reductions has thus far failed to significantly boost consumption. On the other hand, investment
is gaining momentum on government stimuli, as reflected by an increase in state investment. More issuances of Local Government Special Bonds are supporting the planned introduction of infrastructure development stimuli. Accordingly, Fixed Asset Investment (FAI) is also rising due to a bump in state investment amidst slower private infrastructure growth.

**Inflation in China is falling, weighed down by lower food inflation.** CPI inflation in China stood at 1.5% (yoy) in February 2019, decreasing from 1.9% (yoy) the month earlier (Graph 2.5). Inflation has tracked a downward trend in China over the past four periods, held back by food inflation that fell to just 0.7% (yoy). Meanwhile, core inflation remains relatively stable. Congruently, Producer Price Index (PPI) inflation is still low due to weaker external demand and subdued domestic demand.

**In the euro area, economic moderation is deeper than previously expected.** Economic gains in Europe remain constrained by weak export performance and unresolved financial sector issues, coupled with the structural challenge of an ageing population (Graph 2.6). Exports are continuing to decline because demand from major trading partners remains low. Imports have also tailed off in line with slower consumption and investment growth. Net exports have been eroded by a deeper decline of exports than imports. In addition, consumption remains restrained, as reflected by retreating consumer confidence and a lower retail trade index in the main contributor countries, namely Germany, France and Italy. Growth of consumer income in Europe has also slowed, while investment continues to decelerate on deteriorating investor sentiment accompanied by restrained production in the manufacturing industry. The manufacturing sector decline stems from car emissions policy and the impact of trade tensions between the United States and China.
Inflationary pressures remain low in the euro zone, accompanied by lower inflation expectations. Low core inflation was also maintained in February 2019, falling to 1.0% (Graph 2.7). Low core inflation has been linked to weaker consumption growth and slower rising wages. 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 CPI inflation was spurred by a correction to oil prices. Furthermore, milder inflationary pressures were confirmed by the European Central Bank (ECB), which downgraded its inflation projection.

Japan's economic growth projection for 2019 has been revised down again (Graph 2.8). Consumption in Japan continues to decline, as indicated by lower retail sales. Congruously, investment is also stalling, with the manufacturing and services PMI tracking downward trends. Furthermore, the position of net exports has been undermined by fiscal consolidation and economic moderation in trading partners. GDP growth in Japan is expected to decelerate towards potential output of 0.8%.

Inflation in Japan remains well below the Bank of Japan's target. In February 2019, CPI inflation was recorded at 0.2% (yoy) (Graph 2.9). Furthermore, price corrections affecting fuel and telecommunications suppressed core inflation. Inflation expectations in the medium term are expected to increase towards the target, however, supported by adaptive factors such as the rising and forward-looking inflation realisation.

The economic growth projection for India in 2019 has been downgraded (Graph 2.10). Fiscal consolidation has restrained state spending amidst slower household consumption growth and a deeper net export decline. Furthermore, a revision to the GDP calculation method used in India has triggered a low-bias in 2019. The latest assessments have
confirmed slower consumption growth and net exports, with weaker consumption indicated by automotive sales as well as non-oil and gas and non-gold imports as a result of tighter liquidity at nonbanking finance companies (NBFC). The net export position was undermined by global economic moderation. Meanwhile, the positive business cycle and expectations of increasing government spending due to the upcoming elections are anticipated to boost the national economy. CPI inflation in India remains within the target corridor, namely 4.0±2%, increasing slightly to 2.9% (yoy) in March 2019 from 2.6% (yoy) the month earlier (Graph 2.11).

GLOBAL FINANCIAL MARKET RISK

Global financial market uncertainty risk continues to ease yet still demands vigilance (Graph 2.12). This is in line with predictions that the United States Federal Reserve will hold its Federal Funds Rate (FFR) throughout 2019 and 2020 as well as the global monetary policy response that has not been as tight as initially expected (Graph 2.13). Nevertheless, several risks continue to demand vigilance, including resolution of US-China trade tensions, ongoing Brexit uncertainty and deeper global economic moderation. Nevertheless, easing global financial market uncertainty has diverted foreign capital flows to emerging market economies (EMEs), including Indonesia (Graph 2.14).

GLOBAL COMMODITY MARKETS

In line with global economic moderation, world trade volume is decreasing. World trade volume has been impeded by tariffs imposed on China for US-bound imports. Furthermore, export and import activity in advanced economies continues to decline as a consequence of sluggish economic growth. Export-import activity in developing economies experienced a recent correction after increasing
significantly due to frontloading policy in China. Looking forward, world trade volume is expected to regain momentum as trade tensions between the United States and China ease and fiscal stimuli in China begin to induce demand.

**Congruent with slower world trade volume growth, international commodity prices are falling, contrasting the rising global oil price due to geopolitical pressures.** Lower commodity prices were corroborated by the Indonesia Export Commodity Price Index (IHKEI), which followed a downward trend in the first quarter of 2019 (Table 2.1). Nearly all commodities experienced lower prices in line with global economic moderation. Coal prices remain low on increasing coal production in China and Indonesia. A lack of full commitment to implement the OPEC+ cuts suppressed the global oil price at the beginning of 2019 (Graph 2.15). Based on the latest developments, the oil price has begun to bounce back due to geopolitical factors, including the unfolding political and economic crisis in Venezuela as well as the political crisis and ongoing war in Libya, which have restrained oil production. Moving forward, the global oil price is expected to rise as implementation of the OPEC+ cuts becomes more effective.

**ECONOMIC GROWTH**

Bank Indonesia projects solid economic growth in the first quarter of 2019, driven by domestic demand. Strong consumption growth is expected to persist on maintained public purchasing power and continuing fiscal stimuli, including social aid disbursements and election spending. Investment has declined slightly in line with seasonal trends at the beginning of the year yet is predicted to regain momentum in subsequent periods, supported by improving business confidence and ongoing infrastructure development projects. Nevertheless, global economic moderation and

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**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>-5.1</td>
</tr>
<tr>
<td>Coal</td>
<td>6.8</td>
<td>48.2</td>
<td>2.5</td>
<td>-7.6</td>
</tr>
<tr>
<td>CPO</td>
<td>21.3</td>
<td>5.7</td>
<td>-19.2</td>
<td>-7.0</td>
</tr>
<tr>
<td>Rubber</td>
<td>-2.2</td>
<td>28.1</td>
<td>-16.8</td>
<td>14.3</td>
</tr>
<tr>
<td>Nickel</td>
<td>-15.4</td>
<td>8.9</td>
<td>27.8</td>
<td>-5.5</td>
</tr>
<tr>
<td>Tin</td>
<td>13.1</td>
<td>13.1</td>
<td>0.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Aluminium</td>
<td>-3.5</td>
<td>22.9</td>
<td>7.4</td>
<td>-11.0</td>
</tr>
<tr>
<td>Coffee</td>
<td>4.3</td>
<td>-2.9</td>
<td>-15.4</td>
<td>-12.9</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>-3.1</td>
</tr>
</tbody>
</table>

Source: Bloomberg *Data as of March 1st, 2019
sliding international commodity prices have restrained the contribution of net exports. Moving forward, the promising domestic economic outlook is supported by solid domestic demand in line with maintained confidence in the national economy. Furthermore, the policy mix instituted by Bank Indonesia, the Government and other relevant authorities will continue to sustain economic growth momentum, projected in the 5.0-5.4% range in 2019.

**Solid private consumption is expected, which will help build economic growth momentum.** Robust private consumption growth is expected to persist on maintained household purchasing power together with low and controlled inflation as well as rising incomes, affecting most household groups. Increases in the farmers’ terms of trade (ToT) and farmworkers’ real wages point to income gains amongst low-income households (Graph 2.16). Middle- and high-income earners are also enjoying higher salaries, as reflected by positive and rising consumer confidence (index >100) amongst those spending more than Rp2 million per month (Graph 2.17). Maintained public purchasing power and rising household income are driving retail sales, particularly clothing as well as food and beverages. Furthermore, increasing consumption has also been confirmed by rising motorcycle sales (Graph 2.18).

### Table 2.2 Economic Growth by Expenditure

<table>
<thead>
<tr>
<th>Components</th>
<th>2016</th>
<th>2017</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>
<td>I</td>
</tr>
<tr>
<td>Household Consumption</td>
<td>5.01</td>
<td>4.94</td>
<td>4.95</td>
<td>4.91</td>
<td>4.98</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>
<td>5.26</td>
</tr>
<tr>
<td>Government Consumption</td>
<td>-0.14</td>
<td>2.69</td>
<td>-1.94</td>
<td>3.46</td>
<td>3.80</td>
</tr>
<tr>
<td>Investment</td>
<td>4.47</td>
<td>4.77</td>
<td>5.34</td>
<td>7.08</td>
<td>7.26</td>
</tr>
<tr>
<td>Construction Investment</td>
<td>5.18</td>
<td>5.87</td>
<td>6.07</td>
<td>6.28</td>
<td>6.68</td>
</tr>
<tr>
<td>Non-Construction Investment</td>
<td>2.43</td>
<td>1.46</td>
<td>3.25</td>
<td>9.47</td>
<td>9.02</td>
</tr>
<tr>
<td>Exports</td>
<td>-1.66</td>
<td>8.36</td>
<td>2.73</td>
<td>16.48</td>
<td>8.42</td>
</tr>
<tr>
<td>Import</td>
<td>-2.41</td>
<td>4.78</td>
<td>0.18</td>
<td>15.40</td>
<td>11.91</td>
</tr>
<tr>
<td>GDP</td>
<td>5.03</td>
<td>5.01</td>
<td>5.01</td>
<td>5.06</td>
<td>5.19</td>
</tr>
</tbody>
</table>

Source: BPS
**Fiscal stimuli and election spending have boosted private consumption.** Realisation of the social aid program (bansos) increased in the first quarter of 2019 to significantly exceed that recorded in the same period one year earlier (Graph 2.19). Most social aid was disbursed in the form of the Family Hope Program (PKH), targeting beneficiary families, particularly low-income earners. In addition, the realisation of regional transfers and village fund disbursements has remained high at the beginning of the year, thereby increasing regional realisation of the General Allocation Fund (DAU) and Special Allocation Fund (DAK). The aforementioned fiscal stimuli have maintained public purchasing power, especially amongst low-income earners, thus contributing to catalyse household consumption. In addition, spending on preparations for the general election has increased consumption by non-profit institutions serving households (NPISH), which in turn buoyed household consumption.

**Restrainted investment performance is expected in line with seasonal trends at the beginning of the year.** Building investment growth is predicted to decelerate as fewer new physical infrastructure projects were in development during the first quarter of 2019. The Government reined in new infrastructure development projects at the beginning of the year, with most existing projects ongoing from the previous year. Such dynamics were also confirmed by a lower realisation of capital spending by the Government in the reporting period compared with conditions in the first quarter of 2018. Furthermore, flagging cement sales in the first quarter of 2019 corroborated slower building investment growth (Graph 2.20).
Consistent with slower construction investment growth, non-construction investment also experienced weaker growth in the reporting period. The lull in physical infrastructure project activity at the beginning of the year also translated into slower non-construction investment growth, primarily in the form of heavy equipment to support construction activities. In addition, lower world trade volume and international commodity prices have impaired export-based mining and manufacturing performance, which has further constrained non-building investment. The slowdown has also been reflected in dwindling imports of capital goods in the form of transportation equipment and heavy equipment, combined with a lower Purchasing Managers Index (PMI) published by Markit Economics in the first quarter of 2019 (Graph 2.21 and Graph 2.22).

Net exports remain suboptimal as a result of global economic moderation and sliding international commodity prices. A broad-based export decline is currently emerging, primarily affecting agricultural, mining and manufacturing commodities. Agricultural exports continued to contract due to fewer shipments of crude palm oil (CPO) on declining global demand and softer prices. Mining exports also contracted in the reporting period, weighed down by a deeper decline of coal exports. Meanwhile, manufacturing exports posted slower growth in line with sluggish global demand, particularly in Indonesia’s main advanced trading partners such as the United States and Europe, where growth is moderating (Graph 2.23 and Graph 2.24).

Policy synergy between the Government, Bank Indonesia and other relevant authorities to reduce the current account deficit has effectively controlled imports. Policy synergy is oriented towards controlling imports and stimulating exports through the diversification of energy sources to promote the use of Biodiesel 20 (B20), postponement of infrastructure projects with a high import
content as well as application of domestic content requirements (TKDN), amongst others. Consequently, imports of raw materials, capital goods and consumer goods have all declined (Graph 2.25). Raw material imports have fallen in line with less demand for mining and manufacturing activities. Meanwhile, a limited number of new infrastructure projects and weaker demand for imports from the telecommunications industry have eroded imports of capital goods. Finally, consumer goods imports are decelerating due to foodstuffs, motor vehicles and other durable goods.

**INDONESIA BALANCE OF PAYMENTS**

Indonesia’s balance of payments (BOP) is expected to record a surplus in the first quarter of 2019, backed by efforts to strengthen external stability. The BOP outlook is influenced by the expected reduction in the current account deficit coupled with a significant capital and financial account surplus. The current account deficit is reducing in line with efforts to stimulate exports, including tourism, and control imports. Meanwhile, the influx of foreign capital flows was maintained in the reporting period on the promising domestic economic outlook together with less global uncertainty.

Indonesia’s trade balance recorded a surplus in the reporting period amidst a surge of non-oil and gas exports. In March 2019, therefore, the trade surplus stood at USD0.54 billion, increasing from USD0.33 billion the month earlier (Graph 2.26). The wider surplus stemmed from a bump in the non-oil and gas trade balance due to an increase in non-oil and gas exports that outpaced the corresponding uptick in non-oil and gas imports. In addition, the oil and gas trade deficit narrowed compared with conditions in the previous period as oil and gas imports declined faster than oil and gas exports.
The wider non-oil and gas trade surplus stemmed from a larger increase of non-oil and gas exports than non-oil and gas imports. The non-oil and gas trade balance recorded a USD0.99 billion surplus in March 2019, up from USD0.80 billion the month earlier. Such developments were explained by a USD1.49 billion (mtm) increase of non-oil and gas exports compared with a USD1.30 billion (mtm) increment of non-oil and gas imports. Non-oil and gas exports were led by shipments of mineral fuel, iron and steel, metal ore crust and dust, as well as paper/paperboard. Meanwhile, non-oil and gas import growth was driven by electrical machinery and equipment, machinery and mechanical appliances, iron and steel, as well as cereals.

The oil and gas trade deficit has narrowed. The oil and gas trade balance recorded a USD0.45 billion deficit in March 2019, reducing from USD0.47 billion the month earlier. The smaller deficit was caused by a USD0.04 billion (mtm) decline of oil and gas imports combined with a minimal USD0.02 billion (mtm) decrease of oil and gas exports. Oil and gas imports were held back by refined products and gas in line with lower import volumes. Meanwhile, oil and gas exports decreased in terms of refined products and crude oil due to lower export volumes affecting both components and lower export prices for refined products.

As of March 2019, foreign capital inflows maintained a surplus which bolstered external sector resilience. Foreign capital inflows in the form of portfolio investment stood at USD5.5 billion in March 2019 (Graph 2.27). Non-resident capital flowed predominantly to the public sector, primarily rupiah SUN instruments. In the private sector, non-resident capital flows primarily targeted the stock market as global uncertainty eased.

Reserve assets in Indonesia have increased. The position of reserve assets increased from USD123.3 billion at the end of February 2019...
to USD124.5 billion at the end of March 2019 (Graph 2.28), equivalent to 7.0 months of imports or 6.8 months of imports and servicing government external debt, which is well above the international standard of three months. The increase of international reserves in March 2019 mainly originated from oil and gas foreign exchange earnings and other foreign exchange receipts. Bank Indonesia considers the current position of reserve assets adequate to maintain external sector resilience as well as preserve macroeconomic and financial system stability. Looking ahead, Bank Indonesia perceives adequate reserve assets to reinforce confidence in the promising domestic economic outlook and macroeconomic stability as well as positive export performance.

Moving forward, policy synergy will remain focused on efforts to strengthen external resilience. Furthermore, measures to stimulate exports and tourism, while controlling imports, will be continued until the current account deficit reaches a manageable threshold in 2019, namely 2.5% of GDP. Policy will also be oriented towards attracting non-resident capital inflows in order to offset the current account deficit.

**RUPIAH EXCHANGE RATE**

The rupiah continues to appreciate as external sector performance improves. As of 23rd April 2019, the rupiah strengthened 1.17% (ptp) compared with conditions at the end of March 2019 or by an average of 0.58% compared with the March 2019 average (Graph 2.29 and Graph 2.30). In comparison with exchange rates in 2018, the rupiah has appreciated by 2.17% (ptp) or by an average of 0.80% (Graph 2.31). The strong rupiah is closely linked to a deluge of foreign capital inflows to the domestic financial markets, including a sustained flow of non-resident capital to the domestic stock market in April 2019.
An influx of non-resident capital has continued to flow into the domestic financial markets, including the stock market. As of March 2019, foreign capital inflows reached USD5.5 billion, with the trend persisting in April 2019, including stock instruments. Non-resident capital was drawn to domestic markets after Indonesia released solid economic data, such as a stronger trade balance, a high position of reserve assets and controlled inflation. In addition, the recent general election was contested smoothly, which characterised rupiah dynamics. Externally, positive sentiment originated from the prospect of trade negotiations between China and the United States, coupled with solid economic data released in China. Nevertheless, concerns over global economic moderation, which could amplify currency pressures on the rupiah, demand continued vigilance.

The strong rupiah was accompanied by contained volatility. As of 23rd April 2019, rupiah volatility decreased to 5.3% compared with conditions the month earlier. On average, monthly rupiah volatility was lower than that recorded in other peer countries, including South Africa (rand), Turkey (lira), India (rupee), the Philippines (peso), Brazil (real) and Malaysia (ringgit). Annually, rupiah volatility has remained relatively stable in 2019 and compares favourably against other peer currencies, such as the South African rand, Brazilian real and Turkish lira. As of 23rd April 2019, annual rupiah volatility was recorded at 6.1%, which is below the peer average (Graph 2.32).

Looking ahead, Bank Indonesia predicts stable rupiah exchange rates and maintained market mechanisms in line with the promising external sector outlook, supported by a favourable domestic economic outlook and milder financial market uncertainty risk. 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.

**INFLATION**

Low and controlled headline inflation was confirmed in March 2019. The Consumer Price Index (CPI) recorded 0.11% (mtm) inflation in March 2019, after experiencing seasonal deflation of 0.08% (mtm) the month earlier. Inflation was controlled in March 2019 with the help of slower core inflation and another period of deflationary pressures on volatile foods (VF). In contrast, however, rising airfares edged up inflationary pressures on administered prices (AP). Annually, CPI inflation was recorded at 2.48% (yoy) in March 2019, down from 2.57% (yoy) in February 2019 (Graph 2.33). Bank Indonesia expects inflation to remain within the target corridor in 2019, namely 3.5%±1%, reinforced by strong policy coordination with the Government to control inflation, especially during the holy fasting month of Ramadan and Eid-ul-Fitr.

Core inflation declined on the back on anchored inflation expectations. On a monthly basis, core inflation decreased to 0.16% (mtm) in March 2019 from 0.26% (mtm) in February 2019. Non-traded food inflation (rice with a side dish and noodles) as well as non-traded non-food inflation (healthcare services) were the main drag on core inflation in the reporting period. In contrast, traded food inflation was exacerbated by rising sugar prices and rupiah exchange rates. Annually, core inflation decreased to 3.03% (yoy) in March 2019 (Graph 2.34). Controlled core inflation was inextricably linked to policy consistency by Bank Indonesia oriented towards anchoring inflation expectations and maintaining rupiah exchange rates in line with the currency’s fundamental value. Furthermore, anchored inflation expectations were also corroborated by the April 2019 edition of the Consensus...
Forecast (CF), which revealed inflation expectations averaging 3.2% (yoy), down from 3.4% (yoy) in the previous edition (Graph 2.35).

**Adequate supply eased price pressures on volatile foods (VF) in March 2019.** Consequently, volatile foods recorded 0.02% (mtm) deflation in the reporting period, after posting 1.3% (mtm) inflation in the previous period (Graph 2.36). VF deflation stemmed primarily from price corrections affecting purebred chicken meat, rice, purebred chicken eggs, tomatoes and carrots. In contrast, inflationary pressures on shallots and garlic negated deeper VF deflation (Table 2.3). Lower corn-based feed prices combined with increasing supply and stable consumer demand triggered deflationary pressures on purebred chicken meat and eggs. Meanwhile, rice prices decreased with the onset of the harvesting season in the main production hubs coupled with a large rice inventory. Conversely, the supply of shallots was disrupted by flooding, which intensified inflationary pressures. In addition, garlic prices increased on limited supply. Annually, VF inflation stood at 0.16% (yoy) in March 2019, down from 0.33% (yoy) in February 2019.

**Rising airfares spurred inflationary pressures on administered prices (AP).** AP inflation was recorded at 0.08% (mtm) in March 2018, up from 0.06% (mtm) the month earlier (Graph 2.37). Airfares were the main contributor to rising inflationary pressures on administered prices in the reporting period as petrol and electricity rates experienced corrections. Airfares increased in the reporting period towards the ceiling price. In contrast, deflationary pressures on petrol prices stemmed from an average Rp325/litre drop in non-subsidised fuel prices along with a Rp100/litre decline of Premium petrol prices in Java, Madura and Bali on 10th February 2019 (Table 2.4). Meanwhile, government policy to discount electricity rates by Rp52/kWh for 900VA subscribers, effective from 1st
March 2019, triggered lower electricity rates. Annually, AP inflation stood at 3.25% (yoy) in the reporting period, down from 3.38% (yoy) in February 2019.

Regionally, CPI inflation in March 2019 remained within the national target corridor (Figure 2.1). On a monthly basis, most regions maintained low inflation in March 2019 after experiencing deflation the month earlier. Annually, CPI inflation in all regions was recorded below the historical average for the past three years, with the lowest rate posted in Sumatra, followed by Java. Furthermore, CPI inflation was controlled within the target range in all provinces except Central Sulawesi and North Kalimantan, where airfares and fresh fish prices intensified inflationary pressures.

![Regional Inflation Map, March 2019 (%,yoy)](image)

**FINANCIAL MARKETS**

Monetary policy transmission remains effective, with financial system stability, a stable intermediation function and adequate liquidity maintained. Monetary policy was successfully transmitted through the interest rate channel in March 2019, as reflected
by maintained overnight (O/N) interbank rate convergence with the BI 7-Day (Reverse) Repo Rate. The banking industry preserved stable deposit rates in the reporting period, while lowering lending rates. Meanwhile, economic liquidity remained adequate to effectively support economic activity, as confirmed by money supply growth that stayed in line with GDP growth. In general, financial system stability was sustained, accompanied by a stable bank intermediation function and contained credit risk. Furthermore, economic financing through the financial markets performed positively as non-resident capital inflows continued in March 2019.

**Interest Rate Channel**

**As the operational target of monetary policy, O/N interbank rate convergence with the BI 7-Day (Reverse) Repo Rate has been maintained.** In March 2019, the O/N interbank rate fluctuated between -22bps and +16bps of the BI 7-Day (Reverse) Repo Rate, averaging -12bps, narrower than the -14bps recorded in the previous period (Graph 2.38). O/N interbank rate dynamics pointed to a transitory increase 16bps above the BI 7-Day (Reverse) Repo Rate in line with growing demand for rupiah liquidity to settle SBN issuances. The increase only affected tenors of 1 week and 1 month, however. Nevertheless, regular expansive instruments by Bank Indonesia and fiscal expansion by the Government in the form of civil servant remuneration and General Allocation Fund (DAU) disbursements at the end of March 2019 helped return the average daily interbank money market to below the BI 7-Day (Reverse) Repo Rate.

**O/N interbank rate volatility was mitigated by adequate liquidity.** This was reflected in the min-max spread of the average daily O/N interbank rate, which remained relatively stable at 29bps in March 2019 compared with 33bps the month earlier (Graph 2.39).
O/N interbank rate volatility was mitigated by adequate liquidity, as indicated by a persistently high average daily interbank money market transaction volume, namely Rp19.3 trillion.

The banking industry maintained stable deposit rates. The weighted average deposit rate in February 2019 stood at 6.9%, unchanged from the previous period. The latest deposit rate dynamics represent a continuation of the rising trend since the second quarter of 2018 in line with the higher average cost of funds (CoF) (Graph 2.40). Nevertheless, the pace of rising deposit rates has slowed recently, particularly on short-term tenors, as confirmed by a limited 1bps increment in the deposit rate on 1-month tenors. On a monthly basis, the banks were most inclined to raise interest rates on 1-year tenors, totalling 20bps. In contrast, the interest rate on 3-month term deposits was lowered by an average of 6bps in the reporting period. By bank group, only BUKU 2 banks opted to raise deposit rates, contrasting the lower interest rates reported by BUKU 1, 3 and 4 banks. Since the end of 2017, therefore, the weighted average deposit rate has increased by a total of 81bps.

Bucking the upward trend, lending rates continued to fall in February 2019. The weighted average lending rate in February 2019 stood at 10.85%, down from 10.89% the month earlier. The downward trend was precipitated by lower interest rates on consumer loans, investment loans and working capital loans (Graph 2.41). By bank group, BUKU 1, 2, 3 and 4 banks lowered lending rates in the reporting period. Since the end of 2017, therefore, lending rates have fallen 45bps.

Economic Liquidity

Broad money, as a measure of liquidity in the economy, recorded faster growth in February 2019. M2 stood at Rp5,671.2 trillion in the reporting period, as growth
quickened to 6.0% (yoy) from 5.5% (yoy) the month earlier on the back of quasi-money and securities other than shares, which accelerated respectively to 7.1% (yoy) and 16.8% (yoy) in the reporting period from 6.0% (yoy) and 10.3% (yoy) the month earlier. Meanwhile, narrow money (M1) growth retreated to 2.6% (yoy) from 3.8% (yoy) in the previous period (Graph 2.42).

**Based on the affecting factors, faster M2 growth stemmed from NFA gains and stable credit growth (Graph 2.43).** The contraction blighting Net Foreign Assets (NFA) improved from -9.3% (yoy) in January 2019 to -5.1% (yoy) in February 2019 in line with the increase recorded in reserve assets at the end of February 2019. Meanwhile, the banks were more inclined to lend in February 2019, as reflected by a modest bump in outstanding loan growth from 11.9% (yoy) to 12.0% (yoy). Nevertheless, further M2 gains in February 2019 were hampered by contractionary fiscal operations by the government, as indicated by a deeper contraction of net claims on the central government from -14.3% (yoy) to -25.4% (yoy) in line with an increase in central government demand deposits in the monetary system.

**Bank Intermediation**

Financial system stability has been maintained and credit risk contained. The Capital Adequacy Ratio (CAR) of the banking industry remained high at 23.4% in February 2019 (Graph 2.44). Furthermore, the ratio of liquid assets to deposits stood at 22.3% in February 2019, accompanied by a low level of Non-Performing Loans (NPL), namely 2.6% (gross) or 1.2% (net).

**Maintained financial system stability was accompanied by a stable bank intermediation function in February 2019.** In terms of the intermediation function, the banking industry reported stable growth of...
outstanding loans in the reporting period at 12.1% (yoy), up slightly from 12.0% (yoy) in February 2019. Stable credit growth was supported by faster growth of investment loans and working capital loans, which accelerated respectively from 13.1% (yoy) and 12.6% (yoy) in January 2019 to 14.0% (yoy) and 12.8% (yoy) in the reporting period. Conversely, consumer loans posted slower growth, namely from 9.9% (yoy) to 9.6% (yoy) in February 2019 (Graph 2.45). By economic sector, the main contributors to stronger loan growth in the reporting period were the others sector (household consumption), trade, manufacturing and construction (Graph 2.46). Looking ahead, Bank Indonesia projects high growth of loans disbursed by the banking industry towards the upper end of the 10-12% (yoy) range.

**Deposit growth accelerated in the banking industry on rising deposit rates.** Deposit growth reported by the banking industry accelerated to 6.6% (yoy) in February 2019 from 6.4% (yoy) in January 2019 (Graph 2.47), bolstered by solid growth of term deposits that quickened to 9.1% (yoy) from 7.6% (yoy) the month earlier. In contrast, the banking sector recorded slower growth of demand deposits and savings deposits, sliding respectively to 2.5% (yoy) and 6.0% (yoy) from 3.7% (yoy) and 6.7% (yoy) the month earlier. Bank Indonesia forecasts deposit growth in the 8-10% (yoy) range.

**Non-bank Financing**

Positive growth of nonbank economic financing was maintained in March 2019 despite moderating on the same period one year earlier. As of March 2019, economic financing through the capital market, IPOs and rights issues, corporate bonds, Medium-Term Notes (MTN) and Negotiable Certificates of Deposit (NCD) stood at Rp36.6 trillion, which is nevertheless below the Rp43.8
trillion recorded in the same period last year. The decline is attributable to low demand for corporate financing at the beginning of the year, coupled with the wait-and-see attitude of investors during the approach to the legislative and presidential elections to be contested in April 2019. Despite a lower nominal value, the quality of financing has improved, particularly in terms of corporate funding through corporate bond issuances.

Stock Market

The Jakarta Composite Index (JCI) rallied towards the end of March 2019 on positive domestic sentiment. After experiencing a correction in February 2019, the JCI traded up 0.4% (mtm) to close at a level of 6,468.76 in March 2019 (Graph 2.48). Domestic sentiment was maintained by the release of solid domestic macroeconomic data, namely low and controlled inflation, increasing reserve assets and a trade surplus, which boosted optimism surrounding the corporate outlook and spurred the JCI rally. In March 2019, non-resident investors booked a net buy (inflow) totalling Rp1.7 trillion to the domestic stock market. Consequently, the portion of non-resident holdings expanded to 33.6% in March 2019 (Graph 2.49).

Regional bourses achieved mixed performance in the reporting period yet tracked an overall upward trend in line with the JCI. Compared with regional stock exchanges, the JCI mirrored other peer countries, including the Philippines, India, China and Vietnam, which closed up on their respective positions in the previous period. In contrast, the stock markets in Thailand and Malaysia experienced corrections. Bourses in advanced economies also recorded mixed performance, with Hong Kong and the United Kingdom posting gains, while Singapore and the United States reported corrections (Graph 2.50).
By economic sector, the property and financial sectors as well as miscellaneous industry were the main contributors to the recent JCI rally (Graph 2.51). Shares in those three sectors increased respectively by 3.2% (mtm), 2.4% (mtm) and 1.3% (mtm) in the reporting period on solid domestic demand. Meanwhile, further JCI gains were restrained by share price corrections experienced in the primary sector, namely agriculture and mining. In addition, shares in basic manufacturing also recorded a correction. The stock price corrections affecting the aforementioned sectors were consistent with projected export declines of primary commodities and some manufacturing goods due to global economic moderation and sliding international commodity prices.

SBN Market

Lower SBN yields in March 2019 demonstrated further improvements in the SBN market. Lower yields impacted all tenors, medium in particular. In March 2019, SBN yields fell by an average of 19bps to a level of 7.48%. The decline affected all tenors, especially medium-term tenors that decreased 26bps to 7.55%. Meanwhile, short and long tenors declined by 17bps and 9bps to 6.80% and 8.24% respectively. Moreover, the benchmark 10-year yield retreated 18bps to a level of 7.63% (Graph 2.52). The SBN market improvements came amidst a sustained capital inflow in line with maintained optimism in the domestic economic outlook. In addition, the policy mix instituted to preserve the attractiveness of domestic financial markets to non-resident investors was proven effective by the net buy booked by foreign investors in the SBN market. In March 2019, non-residents recorded a net buy (inflow) in the SBN market totalling Rp24.4 trillion. Cumulatively, therefore, the net inflow to the domestic SBN market amounted to Rp73.9 trillion as...
of March 2019, up significantly from Rp22.6 trillion in the same period one year earlier. Therefore, non-resident holdings of tradeable government securities (SBN) increased to 37.44% in the reporting period (Graph 2.53).