

Indonesia Economic Briefing

Monetary Stance on Calibration Mode



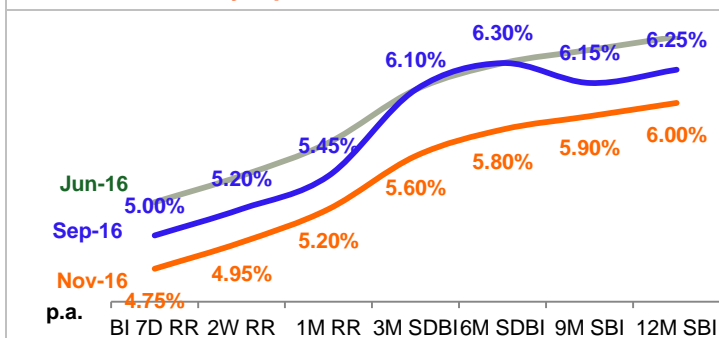
Wisnu Wardana
Economist/Bond Analyst
wisnu.wardana@danamon.co.id

Anton Hendranata
Chief Economist
anton.hendranata@danamon.co.id

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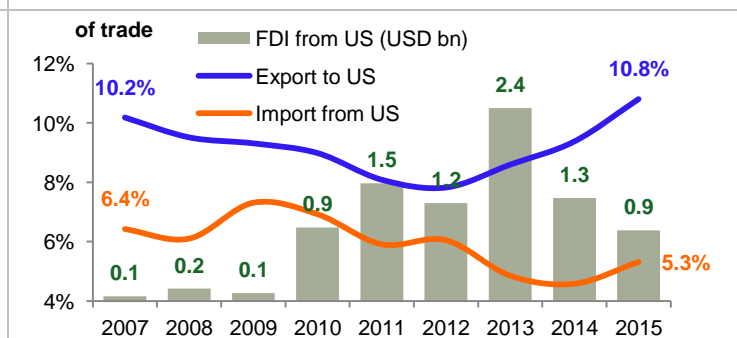
- As expected, today **Bank Indonesia held its key policy rates at current levels**. BI 7-Day Reverse Repo rate stands at 4.75% whilst Deposit (FasBI) and Lending Facility at 4.00% and 5.50%, consecutively. The decision was said to be on the backdrop of “uncertain global financial markets in the wake of the US election”. In this regard, it’s interesting to see the counterbalance between Foreign Direct Investment from the US with the trades of merchandises (*please see Chart 2*).
- In the scope of managing Rupiah, monetary policymakers have stated that they will **“keep maintaining market mechanisms”**. This was to address rising concern from market players on whether Indonesia will follow other countries in adopting a controlled-approach on capital mobility. The answer was a firm NO. Another positive note emerged during the investors’ conference call held after the announcement, where a senior BI official specifically mentioned the amount of realized repatriation to date was around IDR 40tn. This means that we can expect another IDR 100tn worth of repatriation to flow-in before this year ended, providing support to the currency amid jitters from the Fed’s and ECB’s decisions.
- The range of **2017 GDP growth forecasted by the central bank has been revised down to 5.0%-5.4%** from 5.1%-5.5%, previously (Danamon’s forecast for 2017 is 5.0%). Loan growth for next year had also been adjusted down from 12%-14% to 10%-12%. We have been repeatedly flagging that low policy rate helps to consolidate banks’ NPL at a faster pace and that interest spread –i.e. between deposit and lending- will automatically narrow once NPL issues subside, to support qualified productive growth. We share the central bank’s view that this would start after 1H17.
- BI has refrained from disclosing their current monetary stance**, hinting that between now and next January is a crucial time to get more clarity over the outlook. We do think it would be wise to assess and calibrate changes in the geo-economic as well as geo-political situation, before making a decision on where to go next.
- Having said that, we reiterate our view that room for further interest cut has diminished. But given the urgency of both global and domestic situations, we believe the following alternate policies are worth to put forth: **1) flattening the belly and end of term structure, and or 2) narrowing the symmetrical interest rate corridor from currently 75bps to 50bps**. Off course, this is beside macro-prudential stimulus. Either way, we’re comfortable with the fact that monetary policymakers still have some tools reserved for a rainy day.

Chart 1. Monetary Operation Term Structure



Source: Bank Indonesia, CEIC

Chart 2. Indonesia’s Economic Connection with the US



Source: BPS, BKPM, CEIC

Indonesia: Selected Economic Indicators

	2011	2012	2013	2014	2015	2016E
National Accounts						
Real GDP (% y-o-y)	6.2	6.0	5.6	5.0	4.8	5.0
Domestic demand ex. inventory (% y-o-y)	6.1	7.7	5.0	5.4	3.9	5.0
Real Consumption: Private (% y-o-y)	5.1	5.5	5.4	5.2	5.0	5.1
Real Gross Fixed Capital Formation (% y-o-y)	8.9	9.1	5.0	4.6	5.1	4.8
GDP (US\$bn) — nominal	893	918	915	890	862	893
GDP per capita (US\$) — nominal	3,688	3,741	3,668	3,530	3,374	3,453
Open Unemployment Rate (%)	6.6	6.1	6.3	5.9	6.2	6.0
External Sector						
Exports, fob (% y-o-y, US\$ bn)	29.0	-6.6	-3.9	-3.4	-14.8	-7.5
Imports, fob (% y-o-y, US\$ bn)	30.8	8.0	-2.6	-4.5	-19.9	-6.9
Trade balance (US\$ bn)	26.1	-1.7	-4.1	-1.9	7.6	6.1
Current account (% of GDP)	0.2	-2.7	-3.7	-3.2	-2.1	-2.3
Central government debt (% of GDP)	22.3	22.3	21.3	23.6	25.0	24.6
International Reserves –IRFCL (US\$ bn)	110.1	112.8	99.4	111.9	105.9	103.0
Reserve Cover (Months of imports & ext. debt)	6.3	6.1	5.4	6.5	7.4	7.0
Currency/US\$ (Year-end)	9,068	9,670	12,189	12,440	13,795	13,400
Currency/US\$ (Average)	8,779	9,380	10,428	11,900	13,392	13,360
Other						
BI policy rate (% year end)	6.00	5.75	7.50	7.75	7.50	6.50*
BI 7-Day Reverse Repo rate (% year end)	N/A	N/A	N/A	N/A	6.25	4.75
Consumer prices (% year end)	3.78	3.65	8.08	8.36	3.35	3.17
Fiscal balance (% of GDP; FY)	-1.14	-1.77	-2.24	-2.26	-2.70	-2.50
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BB+	BB+

Source: CEIC, E = Danamon Estimates, *) Up to August 2016

Economic and Market Research

Anton Hendranata anton.hendranata@danamon.co.id	Chief Economist	+62 21 8064-5000 ext. 8867
Wisnu Wardana wisnu.wardana@danamon.co.id	Economist / Bond Analyst	+62 21 8064-5000 ext. 8873

PT Bank Danamon Indonesia, Tbk.
Menara Bank Danamon
Jl. H.R. Rasuna Said Kav. C-10, Kuningan
Jakarta 12940
Indonesia

Facs: +62 21 80645263

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