

Indonesia Economic Briefing

Modest Inflation during Eid



	Jun-16 (Actual)	Jun-16 (Fcast)*	Jun-16 (Cons.)	May -16
Headline CPI (% chg y-o-y)	3.45	3.30	3.40	3.33
Headline CPI (% chg m-o-m)	0.66	0.51	0.54	0.24
Headline CPI (% chg y-t-d)	1.06	0.91	0.94	0.40
Core CPI (% chg y-o-y)	3.49	3.38	3.42	3.41

Source: Bloomberg, BPS, CEIC, *Danamon Estimates

Economic Highlights

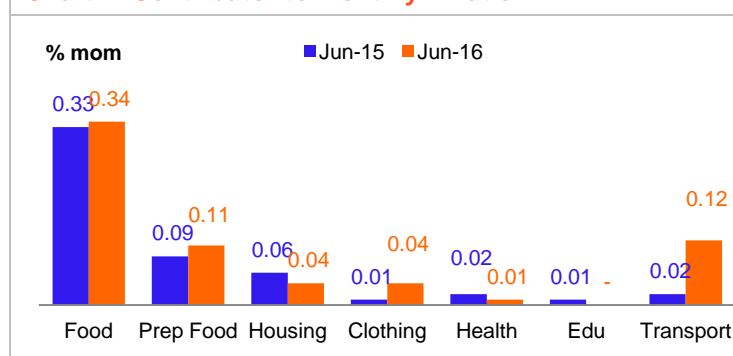
- The statistics office announced a **higher than expected inflation of 0.66% mom** for the month of Jun-16. Year-on-year headline went up from 3.33% to 3.45% yet overall remained manageable. Main drivers of consumer price inflation were unsurprisingly Eid-related, i.e. foods, gold jewelry, and transport tariffs (*please see Chart 1*). Hence, core inflation modestly increased to 3.49% vs 3.41% in May, as it also started its gradual transition from high base to low base.
- **Inflationary risks until year end continue to be quite benign.** We have anticipated for a revamp in electricity tariff (the shift from 900VA customers to 1,300VA base) per July 2016. Yet this plan was delayed indefinitely by the government to help anchor purchasing power. Upward pressure will be coming from elevating oil price and another cut in subsidized diesel fuel already penciled in the revised government budget this year. But as the share of diesel is only 0.2% from total CPI component, we do not see substantial risk toward our 3.94% for FY16 inflation forecast.
- We have been flagging that determinants for monetary easing depend on low inflation as well as stable currency and ample liquidity at this juncture. The passing of Tax Amnesty Bill coupled with Brexit have provided positive sentiments toward domestic securities (10Y govies yield fell by 58pps mtd), enough to fulfill the second and third determinants. As such, **we foresee that further monetary easing is on the table with 2x25bps cut in 7D Reverse Repo rate by July and August.**
- Post August, we believe **Bank Indonesia also needs to flatten its monetary operation term structure**, specifically for the 3 months tenor onwards. Their objective of unwinding short term liquidity from overnight money market to longer tenors has gradually taken place. By flattening the belly and end of term structure, banks will be encouraged to provide supply of credit during times of low interest rate environment.

Please see the important disclaimer and information on the back of this report.

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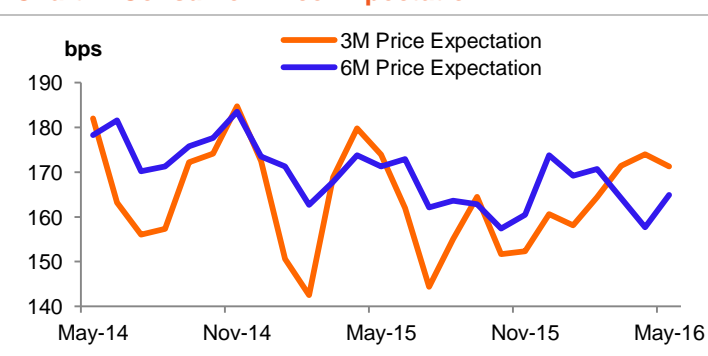
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Chart 1. Contributor to Monthly Inflation



Source: BPS, CEIC

Chart 2. Consumer Price Expectation



BPS, 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	6.25*
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	3.94
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

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