

# Indonesia Economic Briefing

## Monetary Policy: Stimulating through Effective Transmission

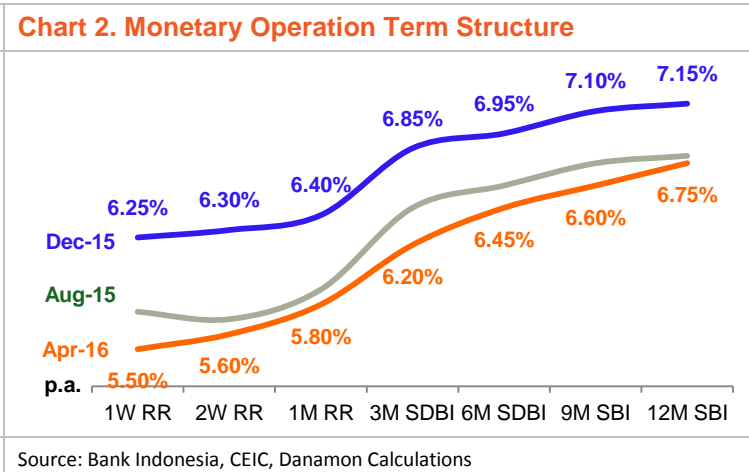
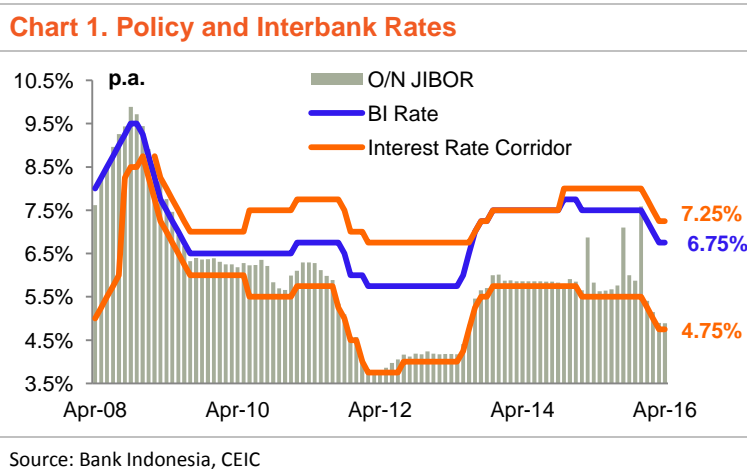


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- After 3 consecutive months of rate cutting, **today Bank Indonesia has decided to leave its key policy rates unchanged**, as widely expected by us and market participants. BI rate remained at 6.75% whilst Deposit and Lending Facility at 4.75% and 7.25%, consecutively. Even the soon-to-be benchmark rate -i.e. 7D (Reverse) Repo Rate- was held flat at 5.50% during their last auction yesterday (20 April).
- On its press release, **the central bank started introducing its monetary operation term structure** as an effort to smoothened the transition from “BI Rate” to “BI 7-day (Reverse) Repo Rate” for future benchmark reference. Also worth mentioning that starting from 19 August, the interest rate corridor would be symmetrical with  $\pm 75$ bps spread to the new benchmark rate. This is opposed to the current asymmetrical corridor with a total of 250bps spread (*please see Chart 1.*). And judging from today’s outcome, the adjustment in Lending Facility would not come gradually.
- Aside from being transactional in nature (implying a direct effect to money market rates with faster pace of transmission), **the new benchmark instrument is also expected to influence the interbank market and reduce the cost of being illiquid**. Under the current condition, say when a bank is in need of short-term liquidity but could not tap the interbank market, then the alternative would be to utilize BI’s Lending Facility with around 250bps additional cost. Post-August, the same banks could utilize BI’s Fine Tune Operation (through unscheduled auctions) that moves along a tighter yet lower corridor. Hence, marginal reduction in bank’s cost of fund.
- Taking a look at the bigger picture, market participants’ focus has shifted to **how it affects the time deposit ceiling capped by OJK**. Currently, the OJK rate hovers at 75 or 100bps above BI rate depending on the bank’s classification (BUKU 4 and 3). Highly anticipated, the financial regulatory body has yet to unveil on whether it will adjust the designated instrument and/or range regarding the change in benchmark rate. However, we believe alternative formulas are worth to put forth: **1) having multiple ceiling range through various tenor that are linked to a single benchmark (7D RR) or 2) linking each tenor of instrument (e.g. 1M, 3M, and so forth) on the term structure with a range**, as opposed to having a single cap ceiling. This would capture and absorb more of the market dynamics as well as enhance efficiency.



## Indonesia: Selected Economic Indicators

	2011	2012	2013	2014	2015	2016E
<b>National Accounts</b>						
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
<b>External Sector</b>						
Exports, fob (% y-o-y, US\$ bn)	29.0	-6.6	-3.9	-3.4	-14.8	2.0
Imports, fob (% y-o-y, US\$ bn)	30.8	8.0	-2.6	-4.5	-19.9	4.0
Trade balance (US\$ bn)	26.1	-1.7	-4.1	-1.9	7.6	11.6
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	13,800
Currency/US\$ (Average)	8,779	9,380	10,428	11,900	13,392	13,450
<b>Other</b>						
BI policy rate (% year end)	6.00	5.75	7.50	7.75	7.50	6.75
Consumer prices (% year end)	3.78	3.65	8.08	8.36	3.35	4.18
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+	BBB+

Source: CEIC, \*Danamon Estimates

## Economic and Market Research

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