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# Indonesia Economic Briefing

## Monetary Policy: Stimulating through Effective Transmission


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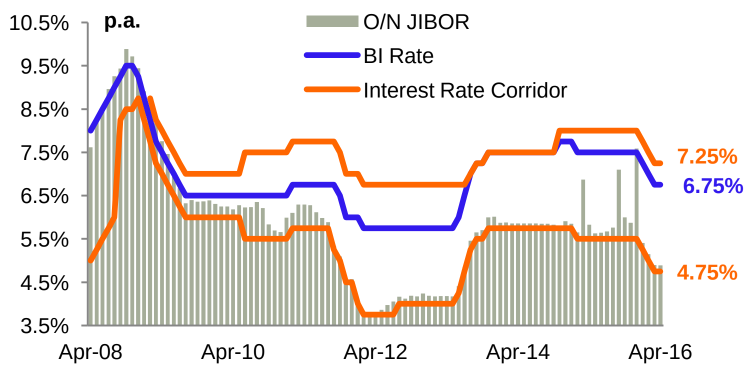
- After 3 consecutive months of rate cutting, **today Bank Indonesia has decided to leave its key policy rates unchanged**, as widely expected by us and market participants. BI rate remained at 6.75% whilst Deposit and Lending Facility at 4.75% and 7.25%, consecutively. Even the soon-to-be benchmark 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 ± 75bps 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.

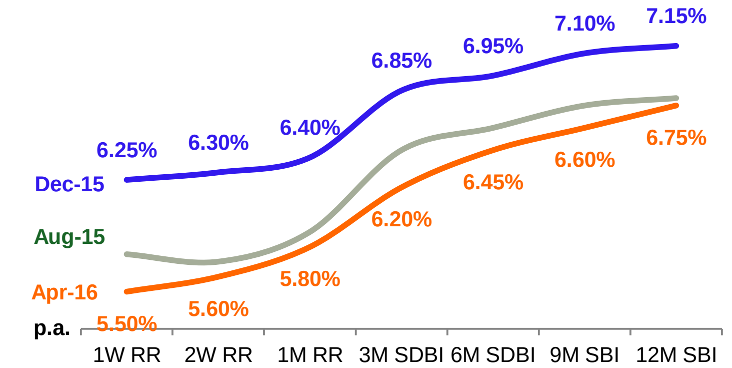
- Taking a look at the bigger picture, market participants' focus has shifted to **how it affects the time deposit ceiling capped by OJK**. Currently, the OJK rate hovers at 75 or 100bps above BI rate depending on the bank's classification (BUKU 4 and 3). Highly anticipated, the financial regulatory 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.

**Chart 1. Policy and Interbank Rates**




Source: Bank Indonesia, CEIC

**Chart 2. Monetary Operation Term Structure**




Source: Bank Indonesia, CEIC, Danamon Calculations

## 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 | 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 |
| **Other** | | | | | | |
| 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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