

Indonesia Economic Briefing

Neutral Stance and Balanced Risks



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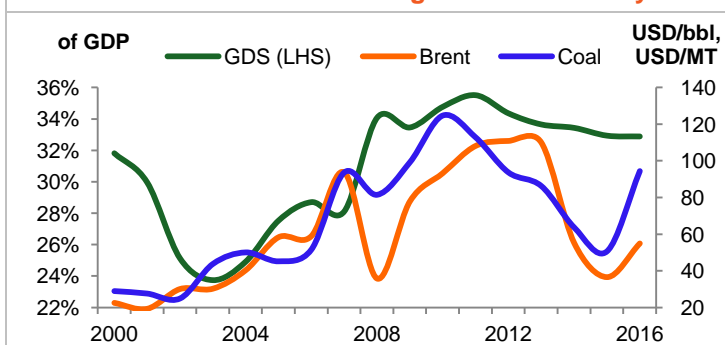
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- As expected, today **Bank Indonesia held its key policy rates at current levels**. BI 7-Day Reverse Repo rate stands at 4.75% whilst Deposit (FasBI) and Lending Facility at 4.00% and 5.50%, consecutively. The decision was made amid strong trade results and comfortable external account conditions.
- BI's official statement mentioned a **new global risk regarding "the Federal Reserve's plan to reduce its overall balance sheet"**. Currently, the US central bank holds around USD 4.5tn in its balance sheet whereby USD 3.5tn is in the form of US Treasury Notes and the rest in mortgage backed securities. During the last FOMC, officials had stated that these securities would gradually be unraveled. However the plan still lacks on detail in terms of when and which instruments are executed.
- The central bank expects **1Q17 GDP result to be below previous projection on the back of weakening household consumption**. We share the same view given the moderation in gross domestic savings, which consists of savings from household, corporate, and public sectors (*please see Chart 1*). National savings moved well in-line with commodity prices as the economy relies heavily on them. However, there may also be windfall potential to 1Q17 GDP due to the shift in harvest bookings, since on 2016 it was booked in 2Q and this year looks to be recorded in 1Q. By our calculation, it amounted up to 0.2% of GDP.
- On money market, the apparent rise of monetary operation term structure (*please see Chart 2*) **was mainly due to liquidity concentration within several banks**. Those that have excessive IDR liquidity also has the flexibility of initiating short-term FX swap transactions, while the takers reposition its newly acquired liquidity back to BI's short-term papers. However, given maturity mismatch of these two transactions upon the second swap trade, some banks had to sell-off their papers in the secondary market and caused yields to rise.
- Monetary policy remains on neutral stance** for the time being due to global and domestic risks. Although, BI officials had already stated that the easing cycle has ended, a shift towards more hawkish tone would depend on how global developments pan-out and how it would affect domestic financial market.

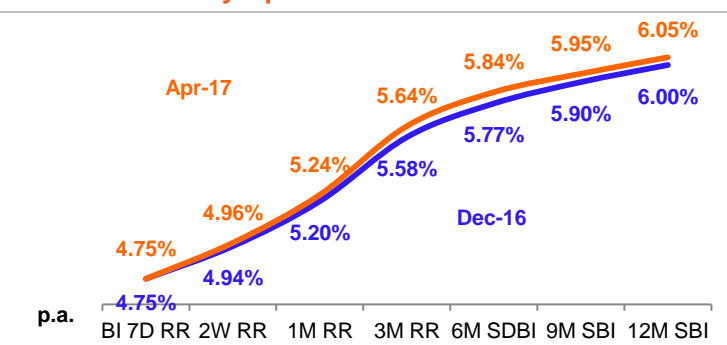
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Chart 1. Gross Domestic Savings and Commodity



Source: BPS, Bank Indonesia, CEIC

Chart 2. Monetary Operation Term Structure



Source: Bank Indonesia

Indonesia: Selected Economic Indicators

	2013	2014	2015	2016	2017E
National Accounts					
Real GDP (% y-o-y)	5.6	5.0	4.9	5.0	5.0
Domestic demand ex. inventory (% y-o-y)	5.0	5.4	3.9	5.0	4.9
Real Consumption: Private (% y-o-y)	5.4	5.2	5.0	5.0	4.9
Real Gross Fixed Capital Formation (% y-o-y)	5.0	4.6	5.0	4.5	5.2
GDP (USD bn) — nominal	915	890	862	923	925
GDP per capita (USD) — nominal	3,668	3,530	3,374	3,569	3,577
Open Unemployment Rate (%)	6.3	5.9	6.2	5.6	5.5
External Sector					
Exports (% y-o-y, BoP Basis)	-2.8	-3.7	-15.4	-3.1	7.0
Imports (% y-o-y, BoP Basis)	-1.3	-4.5	-19.7	-4.5	6.6
Trade balance (USD bn, BoP Basis)	5.8	6.9	13.3	15.4	15.2
Current account (% of GDP)	-3.7	-3.2	-2.1	-1.8	-1.8
Central government debt (% of GDP)	21.3	23.5	26.6	27.7	30.2
International Reserves –IRFCL (USD bn)	99.4	111.9	105.9	116.4	114.0
Reserve Cover (Months of imports & ext. debt)	5.4	6.5	7.4	8.4	8.4
Currency/US\$ (Year-end)	12,189	12,440	13,795	13,436	13,555
Currency/US\$ (Average)	10,428	11,900	13,392	13,308	13,504
Other					
BI policy rate (% year end)	7.50	7.75	7.50	6.50*	N/A
BI 7-Day Reverse Repo rate (% year end)	N/A	N/A	6.25	4.75	5.00
Consumer prices (% year end)	8.08	8.36	3.35	3.02	4.57
Fiscal balance (% of GDP; FY)	-2.24	-2.26	-2.70	-2.46	-2.60
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BBB-

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

Economic and Market Research

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