

Indonesia Economic Briefing

From QE to QT



Wisnu Wardana
Economist

wisnu.wardana@danamon.co.id

Anton Hendranata
Chief Economist

anton.hendranata@danamon.co.id

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

- 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 in the wake of global quantitative tightening (QT).
- At the start of the second half this year, **major central banks had shifted gears toward hawkish position**. Aside from having 2 hikes from the US Federal Reserve, the central bank of Canada also followed suit with a 25bps increase last week. Markets are expecting that the European Central Bank and Bank of England may strike next around mid-2018. While in the Asia Pacific region, we will be watching on the chance that Reserve Bank of Australia could also launch its tightening measure in early 2018.
- As a result, there was an episode of mini sell-off on IDR bonds that led to a short weakening of the currency, just within days after the Indonesian long holiday. Foreign holding in IDR bonds fell by USD 1.3bn while the Rupiah depreciated by 0.7%. But much to our surprise, the current largest holder of Indonesian government bonds were actually European-based investors, amounting almost half of total foreign ownership and twice than US-based investors. Thus **we have reason to believe that there may be greater impact to local bond and currency when ECB starts its quantitative tightening**.
- Getting back to today's monetary policy announcement, the tone from Bank Indonesia appears to have been sanguine and the same as previous months. Stability in inter-macro indicators as well as cross-market instruments has brought down a lot of the tension and fears of external headwinds. We are comfortable with the fact that the central bank has been able to accumulate reserve assets while keeping a short leash on Rupiah's volatility. And we think **BI may keep on doing so in order to maintain macro stability**.
- **We are revising down our YE17 Rupiah forecast and pushing back our rate call to 2018**. Our initial assumptions of Rupiah and policy rate were driven by concerns over several global factors, among them was that monetary contraction in the US will be promptly responded by central banks elsewhere. The risk of strong Dollar cycle also didn't pan-out as expected. As such, we now expect the Rupiah to close the year at IDR 13,430/USD from IDR 13,555/USD, previously. As for the call of hike in policy rate, we concurrently push it back to mid-2018.
- **Key things to watch?** There will be significant data to look out for next month, namely 2Q17 GDP and BoP as well as 2018 government budget. Which, when combined, will shape the economic outlook for the next 6 to 12 months. **We concur with the central bank that 2Q17 GDP will book result in the range of 5.1% yoy**.

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	913	890	861	932	1,005
GDP per capita (USD) — nominal	3,648	3,529	3,371	3,604	3,838
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	13,430
Currency/US\$ (Average)	10,428	11,900	13,392	13,308	13,349
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	4.75
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

Anton Hendranata anton.hendranata@danamon.co.id	Chief Economist	+62 21 8064-5000 ext. 8867
Wisnu Wardana wisnu.wardana@danamon.co.id	Economist	+62 21 8064-5000 ext. 8873
Dian Ayu Yustina dian.yustina@danamon.co.id	Economist	+62 21 8064-5000 ext. 8875

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

Facs: +62 21 80645263

ANALYST CERTIFICATION

We hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views in this report.

DISCLAIMER

The information contained in this report has been taken from sources which we deem reliable. However, none of P.T. Bank Danamon Indonesia, Tbk. and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. We expressly disclaim any responsibility or liability (express or implied) of P.T. Bank Danamon Indonesia, Tbk. its affiliated companies and their respective employees and agents whatsoever and howsoever arising (including, without limitation for any claims, proceedings, action, suits, losses, expenses, damages or costs) which may be brought against or suffered by any person as a result of acting in reliance upon the whole or any part of the contents of this report and neither P.T. Bank Danamon Indonesia, Tbk. its affiliated companies or their respective employees or agents accepts liability for any errors, omissions or mis-statements, negligent or otherwise, in the report and any liability in respect of the report or any inaccuracy therein or omission there from which might otherwise arise is hereby expressly disclaimed. The information contained in this report is not to be taken as any recommendation made by P.T. Bank Danamon Indonesia, Tbk. or any other person to enter into any agreement with regard to any investment mentioned in this document. This report is prepared for general circulation. It does not have regards to the specific person who may receive this report. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice.