

Indonesia Economic Briefing

At the Turn of Global Interest Rates



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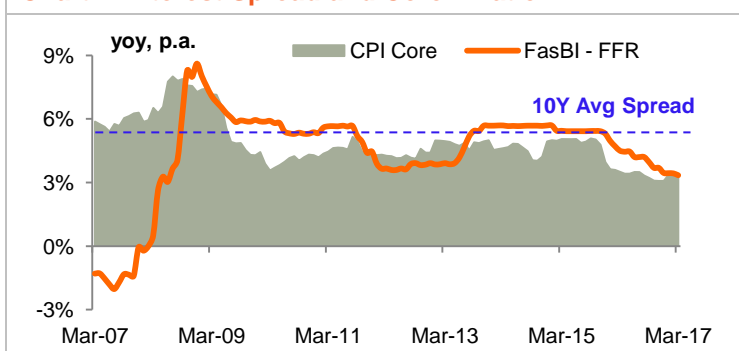
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- As expected, today **Bank Indonesia held its key policy rates at current levels**. BI 7-Day Reverse Repo rate stands at 4.75% whilst Deposit (FasBI) and Lending Facility at 4.00% and 5.50%, consecutively. The decision was made amid strengthening Rupiah and declining bond yields, after two separate monetary contraction steps were taken by the US and China.
- Earlier today, **the US Federal Reserve had delivered its first 25bps benchmark rate hike for the year**. Although the move was expected by participants, it was the interest rate outlook for 2017 that rattled markets. Apparently market players was expecting for 4 hikes this year and was caught off-guard by the dovish tone in Fed's statement, with 3 hikes in the median dot-plot left unchanged. As a result, the Dollar index fell across the board and funds flew elsewhere, including to Emerging Markets.
- BI's official statement mentioned **several new global risks in the short-run**: 1) a second round impact from the Fed Fund Rate (FFR) hike, and 2) a consistently rising trend in global inflation on the back of commodity and energy prices. We believe the pass-through effect of both risks to domestic economy intertwined with each other. From Chart 1 we can learn that the spread between FasBI and FFR has been declining and well below its 10 year average, whilst core inflation is trending up. We also sense that policymakers are currently putting more weight on inflation risk instead of economic growth.
- In the scope of managing corporate external debt, the central bank will focus on **imposing mandatory credit rating for corporate in search for direct lending from foreign banks** (non-market). Minimum credit rating allowed is –BB for FCY loan and issuers can choose to utilize from a selection of international or local rating agencies. As of 2016, there were around 26 corporate rated out of 76 new foreign loan proposals.
- Monetary policy remains on cautious 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. Much hope lies in the possibility of Indonesia getting an investment grade from S&P.

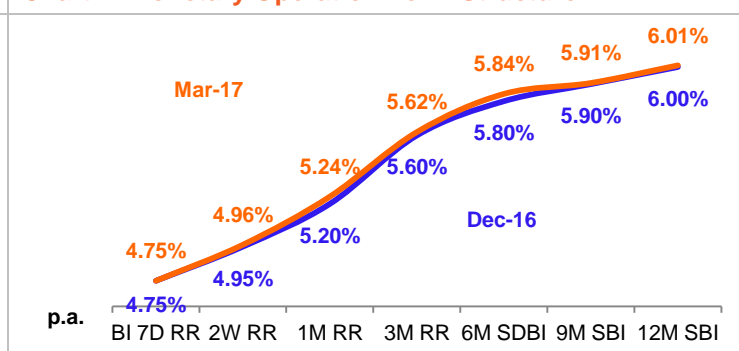
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Chart 1. Interest Spread and Core Inflation



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+	BB+

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

Economic and Market Research

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