



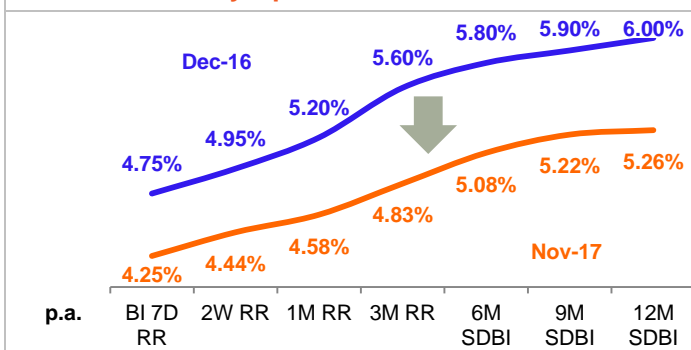
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- As expected, **Bank Indonesia left its key policy rates unchanged at their MPC meeting yesterday**. BI 7-Day Reverse Repo rate still stands at 4.25% whilst Deposit (FasBI) and Lending Facility at 3.50% and 5.00%, consecutively. The monetary operation term structure was said to be flattened further, especially for the longer tenor of 9 and 12 months (*please see Chart 1*). Given its current spread with shorter tenors and state of Rupiah liquidity in the market, we think it would gradually be pushed down around 10pps.
- Monetary policymakers seemed **less sanguine regarding prospects for the rest of 2017, but remained hopeful for 2018** on the back of structural shifts we're currently seeing. They now expect credit growth to reach 8.0% this year and still anticipating for the previous 2x25bps policy rate cuts to be transmitted into the banking system. At the same time, the central bank reinstated its countercyclical capital buffer at 0%, to give a signal that the economy is still in need of support from banks' financing.
- As mentioned in our previous report dated 15 November 2017 on *Indonesia Economic Briefing: Gaining Traction*, **we are mindful on hints of possibility that a primary reserve requirement ratio cut may come soon**. Our argument is underpinned by the fact that loan to deposit ratio for IDR is trending down (*please see Chart 2*). It incorporates a reality that IDR deposit growth has been higher than IDR loan growth for the past 17 months and IDR loan demand have not picked-up, since its growth is still trending down. Meanwhile, the LDR for foreign currency tells a different story, which makes more sense if the cut happens to be for FCY reserve requirement ratio or later on when IDR loan demand has recovered.
- Going forward, we prefer macro-prudential measures instead. One policy that BI is finalizing was the **inclusion of corporate bond holding into banks' Loan-to-Funding calculation**. There will be different effects for each bank, depending on its current position. For banks with low LFR ratio, funds may be channeled to securities that potentially have higher yields than loan. While for banks with LFR at the margin or even above regulatory requirement, this inclusion may force them to take a more conservative position. The net effect, in our view, to overall banking system should be conservative and stability.

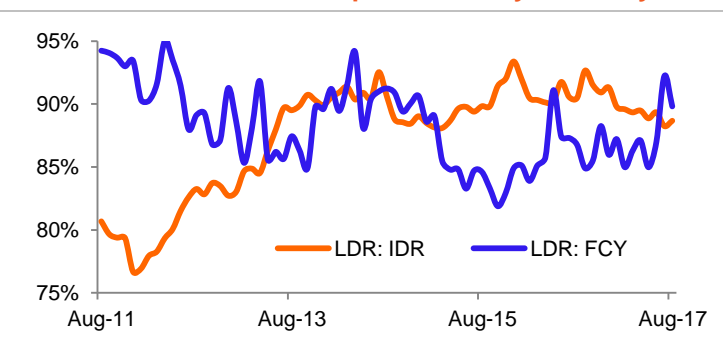
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**Chart 1. Monetary Operation Term Structure**



Source: Bank Indonesia

**Chart 2. Banks' Loan to Deposit Ratio by Currency**



Source: Financial Service Authority (OJK)

## Indonesia: Selected Economic Indicators

	2013	2014	2015	2016	2017E
<b>National Accounts</b>					
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
<b>External Sector</b>					
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	-1.5
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
<b>Other</b>					
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	4.25
Consumer prices (% year end)	8.08	8.36	3.35	3.02	3.81
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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