

Indonesia Economic Briefing

The Least Concern



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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 decision was said to be consistent with efforts to maintain the balance risk between global and domestic situation.
- Monetary policymakers projected that **FY17 GDP growth will better than initially expected**. Although the range of forecast was upheld -i.e between 5.0%-5.4% in 2017 and 5.1%-5.5% in 2018-, their nowcasting suggest that the economy will book at the high end of 5.1%-5.2%. This is driven by improvements in all engines of the economy. We are reiterating our flat GDP forecast given that the acceleration in import volume had outpaced the acceleration in export volume.
- The central bank seemed least concern regarding the fundamentals of the financial sector. First off, notes on financial system stability had been as a closing paragraph in their press release for a long time. Secondly, monetary decisions were focused on promoting growth by pushing the financial sector to lend out money, be it through monetary or macro-prudential measures. We note that **this year's economy had been supported by the top 5 banks in the 4th classification**, as their loan growth had doubled compared to end of last year. Yet, at the same time, their NPLs had gradually risen from 2.6% at end 2016 to 2.8% currently while managing 50% of total loan in the economy.
- Going forward, BI expects that 2018 inflation may be contained below their target of 3.5% vis-à-vis 3.3% (BDMN FY18 inflation forecast: 3.4%). If we impose a rule-of-thumb regarding the spread between inflation and policy rate -i.e. 50bps during monetary expansion- **then there may be room for another cut on the table**. Timing of the cut, if any, would most likely be on 1Q18. Again, from a regulatory perspective, it comes back to what can be done rather than what needs to be done. And making use of all available options at hand.

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	4.25
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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