

Indonesia Economic Briefing

What Can Expedite A Shift in Monetary Stance?



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, **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 stance of monetary policy remained neutral with risk cautions spread through-out its statement, which was release soon after the announcement. We have yet to see a significant change of tone from the central bank and think that they may remain on the sideline so long as stability is intact.
- The sell-off in capital market and currency depreciation that started since end of January and lasted till mid-March were contained at the cost of USD 6bn depletion in FX reserve. Specifically in the IDR bond market, we note that **a concentration of investor base is building up**. US investors have continued to gradually cut down their holdings, while the Europeans were on the buying side. It make sense since the US is at a cycle of drawing funds inward while Euro area is approaching the end of its easing cycle. However, it also means that any move the European Central Bank makes in 2H18 would have greater impact to the bond market.
- A more positive note from the real sector is wrapped in BI's statement that **1Q18 economic growth** (due to be released in May 7th) **is higher than 1Q17**. According to their now-casting projection, policymakers expect 1Q18 GDP to grow by 5.1% yoy vs BDMN's forecast of 5.2% yoy. Driver of growth is seen from fixed investment from both infrastructure and mining sectors, while private consumption is paving way for a gradual recovery. We have mentioned in the past that the caveat lies on how much oil and food prices may put a dent in purchasing power. Judging from the response of policymakers by curbing potential inflation from both commodities, we think the impact should be minimal this year.
- Getting back to monetary policy, we are on the view that **the central bank may only utilize interest rate as a back-stop plan if the following condition arises simultaneously**: 1) inflation pushed above the targeted range of 4.5% with core inflation trailing close, 2) the Rupiah breaks outside BI's target range of 10% volatility -YTD 2018 is at 7%-, and 3) FX reserve depleting close to its highest threshold, which by our calculation is USD 76bn. These fundamental thresholds may differ from market psychological threshold that usually denotes in rounded big figures. As such, a breach in each one of these variables could have the potential to expedite the others. For now, we maintained our unchanged projection of interest rate through-out this year.

Indonesia: Selected Economic Indicators

	2014	2015	2016	2017	2018E
National Accounts					
Real GDP (% y-o-y)	5.0	4.9	5.0	5.1	5.3
Domestic demand ex. inventory (% y-o-y)	5.3	4.0	5.0	4.8	5.4
Real Consumption: Private (% y-o-y)	5.1	5.0	5.0	4.9	5.0
Real Gross Fixed Capital Formation (% y-o-y)	4.4	5.0	4.5	6.2	6.0
GDP (USD bn) — nominal	891	861	933	1,016	1,115
GDP per capita (USD) — nominal	3,532	3,370	3,603	3,878	4,198
Open Unemployment Rate (%)	5.9	6.2	5.6	5.5	5.5
External Sector					
Exports (% y-o-y, BoP Basis)	-3.7	-14.9	-3.1	16.9	6.0
Imports (% y-o-y, BoP Basis)	-4.5	-19.7	-4.5	16.2	11.8
Trade balance (USD bn, BoP Basis)	6.9	14.1	15.4	18.9	17.6
Current account (% of GDP)	-3.2	-2.1	-1.8	-1.7	-2.0
Central government debt (% of GDP)	24.7	27.4	27.8	28.6 (E)	28.7
International Reserves –IRFCL (USD bn)	111.9	105.9	116.4	130.2	136.8
Reserve Cover (Months of imports & ext. debt)	6.5	7.4	8.4	8.3	8.5
Currency/US\$ (Year-end)	12,440	13,795	13,436	13,548	13,575
Currency/US\$ (Average)	11,878	13,392	13,308	13,383	13,520
Other					
BI policy rate (% year end)	7.75	7.50	6.50*	N/A	N/A
BI 7-Day Reverse Repo rate (% year end)	N/A	6.25	4.75	4.25	4.25
Consumer prices (% year end)	8.36	3.35	3.02	3.61	3.64
Fiscal balance (% of GDP; FY)	-2.26	-2.70	-2.46	-2.60 (E)	-2.52
S&P's Rating – FCY	BB+	BB+	BB+	BBB-	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 regard 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.