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- **Bank Indonesia left its key policy rates unchanged at their MPC meeting yesterday.** BI 7-Day Reverse Repo rate was maintained at 4.25% with Deposit (FasBI) and Lending Facility consecutively stayed at 3.50% and 5.00%.
- **The highly-anticipated policies were announced i.e. Improvement of the Average RR, Macroprudential Intermediation Ratio (MIR) and Macroprudential Liquidity Buffer (MLB).**
- BI sped up and improved the Average IDR Reserve Requirement policy that will be effectively implemented at July 16th 2018. With the new regulation, Banks would still be required to keep an average of 6.5% of their deposits at BI over a two-week period, but need only to keep a 4.5% deposits each day (from previously 5%). This means the flexible portion is loosened from prev. 1.5% to 2% to give Banks more flexibility in managing the daily liquidity. With this we think, the interbank market can be more active and the flexibility will give more room for banks in case of any events that may cause tighter liquidity, hence avoiding any spikes in the interbank rates.
- BI has also nullified the interest rate for deposits kept at BI (from originally banks will get interest rate 2.5% out of their 1.5% RR). This emphasized the central bank's desire for more active interbank activities as they look for ways to further deepen the financial market.
- **The average RR will also be implemented for FX Reserve Requirement for conventional banks (average 8% with 2% flexible portion) and IDR Reserve Requirement for Islamic banks (average 5% with 2% flexible portion) at a later date (Oct 1st 2018).**
- We think the policies are introduced in a timely manner to anticipate any shocks that may cause tight liquidity condition as we enter the year of economic recovery, global tightening and rising geopolitical risks.
- **The policy on Macroprudential Intermediation Ratio (MIR or the financing to funding ratio) and the Macroprudential Liquidity Buffer (MLB) have also been officially issued.** BI's statement is *"The implementation of MIR and MLB is to prevent and reduce risky pro-cyclical tendency in banking behavior"*. With these policies in place, we think BI played its part in guarding the financial stability by taking precautionary and countercyclical measures in response to the optimism of economic recovery and the rapid growth of capital market financing.
- Banks are now required to maintain MIR in the range of 80-92%, with a wider definition of the financing (to include loans and securities owned) and funding (to include deposit and securities issued). Banks are also required to hold extra reserve (this is to replace the previous secondary RR rules) under the term *"Macroprudential Liquidity Buffer (MLB)"* by a magnitude of 4% of deposits, with a maximum 2% flexibility (under certain condition) to be used as repo to BI to fulfill banks liquidity.
- BI sets lower inflation target this year at 3.5±1% which we think is an optimism of a remaining low inflation this year. However, from the press release, BI cited to remain vigilance to any potential risk to the inflation as we see food prices and global oil price continue to rise. **Therefore we think the room for another rate cut is closing. We believe BI will opt to maintain the 7D RR steady at 4.25% for the rest of the year.**

Indonesia: Selected Economic Indicators

	2014	2015	2016	2017E	2018E
National Accounts					
Real GDP (% y-o-y)	5.0	4.9	5.0	5.0	5.3
Domestic demand ex. inventory (% y-o-y)	5.3	3.9	5.0	4.6	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	5.7	6.0
GDP (USD bn) — nominal	890	861	932	1,005	1,115
GDP per capita (USD) — nominal	3,529	3,371	3,604	3,838	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	16.8	6.0
Imports (% y-o-y, BoP Basis)	-4.5	-19.7	-4.5	16.8	11.8
Trade balance (USD bn, BoP Basis)	6.9	14.1	15.4	18.1	17.6
Current account (% of GDP)	-3.2	-2.1	-1.8	-1.8	-2.0
Central government debt (% of GDP)	24.7	27.4	27.8	28.6	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	-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

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