

# Indonesia Economic Briefing

## Laying a Foundation for Stability



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- As expected, **Bank Indonesia held its key policy rates at their MPC meeting yesterday**. BI 7-Day Reverse Repo rate still stands at 5.25% whilst Deposit (FasBI) and Lending Facility at 4.50% and 6.00%, consecutively. The stance of monetary policy is still hawkish and the tone is still cautious optimistic, thus regulators kept on pushing for further financial deepening as well as effective monetary transmission. Several strategies within their pipeline include cutting down swap rates and the reactivation of BI Certificates to lure in foreign portfolio investors back to domestic market. We view this as positive in a sense that investors have alternative instruments to place their funds to and can be use as an underlying for swap transactions. The caveat, however, lies on what rate will be given to suffice its carry trade.
- Another salient point that was highlighted on the press conference following their MPC announcement is the effect of the previous 100bps benchmark rate hike to the banking industry. Officials stated that within the same timeline, **banks' interest rate for deposit have risen by around 40bps while interest rate for loan increased by 9-12bps**. This means that from an efficiency point of view, the previous change in policy rate instrument has not only made monetary transmission more effective but also much faster.
- Regarding the fundamentals of Rupiah, we concur with the central bank that managing Current Account Deficit is key. We also reiterate our view of not overlooking the country's current investment position (*please see Table 1 and 2*). A Net International Investment Position (NIIP) is a financial statement setting out the stock of external financial assets and liabilities of a particular country. Note that a positive NIIP value indicates a creditor nation, while a negative value indicates a debtor nation. It is not uncommon for fast growing emerging countries to have both negative NIIP and CAD, yet we believe **there is value to be gained when addressing this issue by strengthening the asset side rather than limiting the liabilities side**. Paving ways for top local players, which have already mature in domestic market share, to expand in international grounds may provide long-term foundation for currency stability through investment income.
- Going forward, we have penciled in the possibility of 2x25bps policy rate hikes**. Any move from now on will be data dependant and utilize to keep the comparative asset valuation at par with peers. Although we do not expect such aggressive import that was revealed these past 3 quarters to continue on 2H18, yet our concern over global financial volatility post European Central Bank's Quantitative Easing remains.

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**Table 1. Net International Investment Position**

Country	NIIP (of GDP)
China	+16%
Malaysia	-2%
Philippines	-14%
India	-17%
<b>Indonesia</b>	<b>-33%</b>
Turkey	-54%

Source: CEIC

**Table 2. Investment Income/(Payment)**

Country	+Income/(-Payment) to GDP
China	-0.6%
Turkey	-1.2%
India	-1.3%
Philippines	-1.5%
Malaysia	-2.7%
<b>Indonesia</b>	<b>-3.1%</b>

Source: CEIC

## Indonesia: Selected Economic Indicators

	2014	2015	2016	2017	2018E
<b>National Accounts</b>					
Real GDP (% y-o-y)	5.0	4.9	5.0	5.1	5.1
Domestic demand ex. inventory (% y-o-y)	5.3	4.0	5.0	4.8	5.6
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	6.3
GDP (USD bn) — nominal	891	861	933	1,016	1,076
GDP per capita (USD) — nominal	3,532	3,370	3,603	3,878	4,050
Open Unemployment Rate (%)	5.9	6.2	5.6	5.5	5.3
<b>External Sector</b>					
Exports (% y-o-y, BoP Basis)	-3.7	-14.9	-3.1	16.9	6.5
Imports (% y-o-y, BoP Basis)	-4.5	-19.7	-4.5	16.2	13.0
Trade balance (USD bn, BoP Basis)	6.9	14.1	15.4	18.9	10.3
Current account (% of GDP)	-3.2	-2.1	-1.8	-1.7	-2.5
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	120.6
Reserve Cover (Months of imports & ext. debt)	6.5	7.4	8.4	8.3	7.7
Currency/US\$ (Year-end)	12,440	13,795	13,436	13,548	14,100
Currency/US\$ (Average)	11,878	13,392	13,308	13,383	13,950
<b>Other</b>					
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	5.75
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

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