

Indonesia Economic Briefing

BI Policy Review: Raised the Bar



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- **Bank Indonesia raised its key policy rates by another 25bps this month at the unscheduled MPC meeting held in May 30th.** BI 7-Day Reverse Repo rate now stands at 4.75% whilst Deposit (FasBI) and Lending Facility at 4.00% and 5.50%, consecutively.
- We think the additional MPC meeting was held in some part to anticipate the FOMC meeting that is scheduled at June 13, which falls during the Indonesia's festive holiday. **This time, BI's statement came out a lot firmer, confirming the interest rate policy will be taken in a "pre-emptive, front-loading and ahead of the curve" manner.** The new BI governor, Perry Warjiyo also raised the bar by giving a very clear forward guidance that the next decision will be data dependent and BI still has room for measurable increases in the interest rates. This means that the monetary policy stance has shifted from 'neutral' to 'tight-bias'.
- **BI noted that the underlying risks are mostly from the global factors (i.e. US fiscal and monetary policies, trade tension, other geopolitical factors), while the fundamental domestic economy remain sound.** Inflation is contained, expected to reach 3.6% by year-end. CA deficit is expected to fall under 2.5% of GDP, still at manageable level this year.
- **In the press release BI laid out short term policies to stabilize the currencies** i.e. pre-emptive and ahead of the curve interest rate policy, dual intervention both in FX and bonds market, credible liquidity management and intensive communications with the market participants.
- **These policies are imperative to prevent the currency to sway wider from its fundamental value.** An overshooting currency will eventually give negative impact to the economy, particularly through declining perception of market participants and economic actors. Meanwhile the impact of the rate hikes may be more limited as long as the liquidity management in the financial system remains credible. Furthermore BI currently is preparing other measures to shield the domestic economy from the lagged impact of the rate hikes one of which is the macro-prudential policies that related to the property market. This explains why BI still maintained the credit growth forecast at 10-12% this year. Another policy on the table is related to financial market deepening to accelerate the private sector involvement in the infrastructure financing.
- The Indonesian government gave a green light for the rate hikes, indicating policy coordination is well maintained. Reiterating BI's forward-guidance, we think BI still has room to raise interest rate, but the decision will be highly data-dependent.

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	13,800
Currency/US\$ (Average)	11,878	13,392	13,308	13,383	13,874
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	4.75
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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