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MacroInsight

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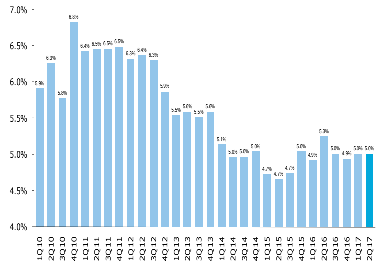
Research | Indonesia | Economics

Macroeconomics Indicator		
	2017	2018F
GDP growth (% yoy)	5.1f	5.3
Inflation (% yoy)	3.6	3.5
7DRRR (% year end)	4.25	4.25
IDR/USD (median)	13,342	13,500
CA balance (% of GDP)	-2.0f	-1.8
Fiscal balance (% of GDP)	-2.4	-2.2

GDP growth (%, yoy)



Money & Forex Reserves		
	latest	% yoy
M1 – Nov17, Rptn	1338.1	13.1
M2 –Nov17, Rptn	5321.4	9.3
Reserves –Dec17, US$bn	130.2	11.9

Source: BI, BPS, CEIC

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The year to deepen

- **Bank Indonesia holds rate at 4.25% for Jan18, an anticipated move.**
- **Cautiously optimist on recent foreign developments.**
- **Implementation of average reserve requirement ratio is advanced,**
- **...along with enhancements made in macroprudential measures.**

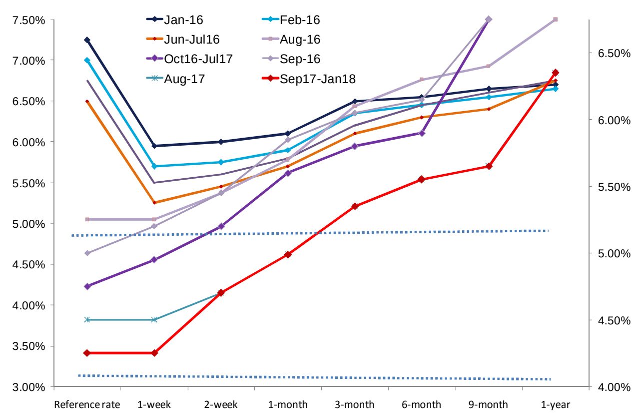
Reference rate maintained. Bank Indonesia decided to hold rate in its first meeting in 2018 at 4.25% along with lending and deposit facility rates, each at 5% and 3.5%. This is an expected outcome, in consensus view and ours, not only for this month but for the remainder of the 1Q as inflation was closing relatively low last year, at c. 2.8% (headline inflation was 3.6% yoy, instead), after adjusting out for administrative price increase represented mostly by the electricity tariff adjustment happened in 1H17. We also think BI would prefer to see further development of the upward tendency of FFR and how it impacts to Indonesian market.

Optimist but with caution. While domestic economy has been stable throughout last year and expectedly so this year, we believe some foreign developments are worth to be vigilant for. Recently China has realised FY17's economic growth at 6.9%, which would risk to decline this year as its population continues to age, some 2-3 times hike possibility by The Federal Reserve for its FFR, and combined with Bank of Japan's recent move to limit the purchase of bond buying by JPY10bn for the long-tenured bonds of 10-25 years to JPY190bn and of 25-40 years to JPY90bn. The risk of the second and third events would be to limit liquidity going for the EMs, including Indonesia, which has observed an influx of fund entering its bond market of Rp33tn ytd (vs Rp19.7tn 1M17) and to possibly put the central bank at the stance of tightening, depending on the magnitude and domestic prices.

Advancing average RRR. That said, the central bank's continuous plan to perfect the average reserve requirement ratio (or, average GWM, according to BI's jargon), is being implemented faster than expected. Conventional banks will be imposed of fixed GWM at 4.5% and average GWM 2% for rupiah deposits and fixed GWM at 6% and average GWM 2% for foreign currency deposits, whereas *sharia* banks must put 3% fixed GWM and 2% average GWM for their rupiah deposits. The effective timeline for this would start on July 16, 2018 and gradually until October 1. This should give more liberty and therefore, creativity, to banks, notably smaller ones, in managing their liquidity while the central bank should benefit from promoted intermediation service.

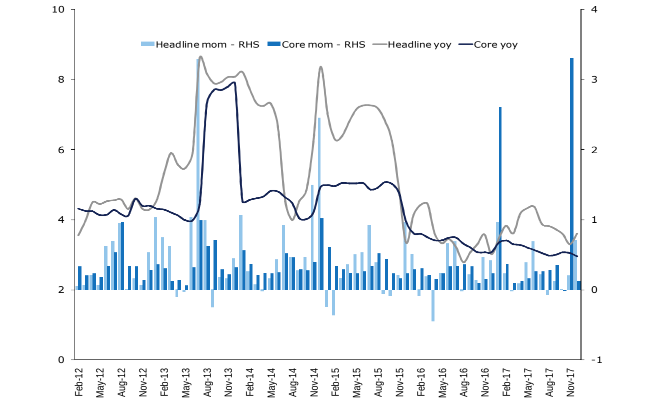
Two macroprudential measures. As with the GWM, BI also introduces a new ratio, dubbed Macroprudential Intermediation Ratio (or RIM), in replacement of the loan-to-funding ratio (GWM-LFR), in which the ratio formula is modified to incorporate securities owned and issued by conventional and *sharia* banks. Where the LFR once used to only account for loan divided by funding (third party funds plus securities issued), now it takes into account loan plus ownership of securities as the numerator in the ratio. The idea behind this is to help banks enact countercyclical measures as in an event of economic slowdown, there is usually hesitance to disburse loan, which makes LDR unsatisfactory. The new accounting should allow purchase of securities in making up for the loss in loan disbursement and maintain credit quality going forward. Moreover, BI also modifies the rule for secondary GWM into what is named Macroprudential Liquidity Support (or, PLM) – where in PLM, a portion of securities from third party funds can be put in repurchase agreement (repo) to BI for open market operation (the maximum amount for repo is 2% of 4% imposed by BI). It is perceived that BI's move this year will be mostly about penetrating deeper into the money market, whose impact we would continue to monitor upon implementation.

Fig. 1: Monetary term structure (%)



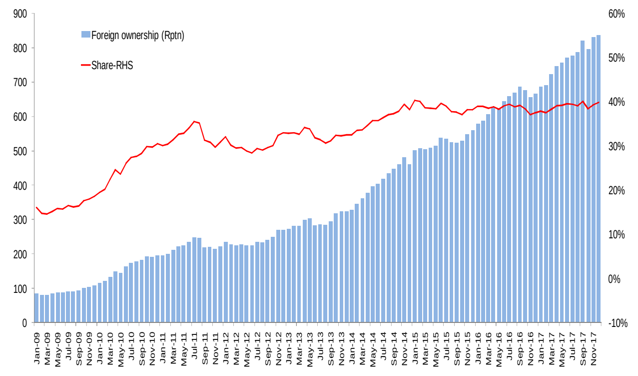
Source : Bank Indonesia, IndoPremier

Fig. 2: Inflation (% mom, yoy)



Source : Statistics Indonesia, IndoPremier

Fig. 3: Foreign bond ownership (Rptn-LHS, %-RHS)



Source : MoF, IndoPremier

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INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

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