



Monthly Economic Review June/July 2015

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- **Inflation:** Inflation moved up mildly to 0.54% in June (vs. 0.50% in May), mainly due to rising food commodities with core inflation also accelerated to 0.26%. This was lower than the consensus estimate and BI's prediction. As expected, upward movement in food prices continued to be the main inflation driver as the fasting month of Ramadhan commenced. This has put annual inflation at a higher level of 7.26% (vs. 7.15% in the previous month). Year-to-date inflation was also up to 0.96% (vs. 0.42% a month earlier) with core inflation of 1.99% compared to 1.73% in May. Meanwhile, annual core inflation was stable at 5.04%.
- **Trade Balance:** Indonesian trade balance recorded sixth consecutive monthly surplus at USD 950 million in May (vs. USD 450 billion in April). This is mainly due to rapid decline in imports which fell 21.4% year-on-year (yoy) to USD 11.6 billion compared to decline in exports which down by 15.2% yoy to USD 12.6 billion -- all of which points to prolonged reduced economic activity.
- **Foreign Reserve:** The country's foreign reserve (now known as official reserve assets) marginally slid down to USD 110.8 billion at end of May (vs. USD 110.9 billion previous month). The declining reserve was inseparable from the central bank's policy to stabilize the Rupiah. However this was cushioned by foreign exchange receipts from the Government global sukuk issuance. The reserve could cover 7.1 months of imports or 6.8 months of imports and servicing of Government external debt repayment, well above the international standards of reserves adequacy at 3 months of imports.
- **Jakarta Composite Index (JCI):** JCI dropped to 4,910.66 at end of June compared to previous month closing of 5,216.38. Prolonged concern on the slowdown in domestic and global economy was heavily compounded by Greece debt crisis. In July, JCI remains fluctuating and further slipped to 4,871.57 as of July 8th.
- **BI Rate:** The central bank is slated to hold board of governor's meeting on July 14, 2015. After deciding to maintain its benchmark interest rate, deposit facility and lending facility rates at 7.50%, 5.50% and 8.0% respectively in the previous meeting, BI might again retain the rates at current level supported by manageable inflation condition.

- **Rupiah:** The Rupiah continued to fall at end of June and closed at 13,339 against the greenback (vs. 13,224/USD a month earlier). Sustained concern over the slowdown in domestic economy as indicated by weakening buying power and the decline in exports would put the Rupiah under pressure. However drop in imports can act as a buffer to avoid further pressure on the currency. Central bank's intervention is still expected to manage the Rupiah movement. As of July 8th, the Rupiah was relatively flat at 13,356/USD.
- **Government Bond Yield (10Y):** The government bond market was still under pressure in June, exacerbated by continuing weak Rupiah. The yield of 10Y government bond benchmark climbed to 8.34% compared to 8.15% at end of May. Further, the yield was tempered to 8.26% as of July 8th after a relatively favorable inflation turnout.
- **Car and Motorcycle Sales:** Automotive sales continued its slump due to slowdown in economic activities coupled with weakening purchasing power with inflationary pressures still looming. Car sales in May dropped by 2.9% mom and 16.6% yoy to 79,236 units and 443,181 units, respectively. In tandem with weaker four wheel sales, motorcycle sales dipped 10.5% mom to 469,630 units and 24.7% yoy to 2,599,448 units in the same period.
- **Commodities**
 - **Oil:** Western Texas Intermediate (WTI) price weakened with closing price of USD 58.90/barrel at end of May (vs. USD 60.30/barrel a month earlier). Declining demand pull during the month -- with the Euro zone economy being in the spotlight as Greece faced debt crisis -- dragged the price down. As of July 8th, oil price dropped further to USD 52.62/barrel.
 - **Coal:** On the other hand, coal price recovered to around April's level at 59.25/ton as on the last day in June (vs. USD 56.35/ton in May). This was mainly technical after the price experiencing a dip in May right after China announcing decelerated GDP growth in 1Q15. Coal was then stabilized at a price of USD 58.15/ton as of July 8th.
 - **CPO:** Crude palm oil price lost its steam and was recorded at USD 591.91/ton at end of June compared to USD 606.35/ton in the previous month due to lower import by its two largest consumers, India and China, amidst a glut of soya oil. As of July 8th, CPO price dipped further to USD 565.79/ton.
 - **Gold:** Gold price again was closed at lower level of USD 1,169.90/ounce at end June (vs. USD 1,189.80/ounce a month earlier). The bleak prospect over Greece's debt resolution had put this commodity under pressure. On July 8th, this commodity price stayed relatively flat at USD 1,154/ounce.
- **Other News**
 - **Mandatory Use of Rupiah:** On 1 July 2015, Bank Indonesia's Regulation No. 17/3/PBI/2015 of Mandatory Use of the Rupiah in Indonesia came into effect. The use of foreign currencies is forbidden in transactions conducted in Indonesia. The objective is to deepen the domestic rupiah market, stabilize the rupiah, and foster economic expansion.

This requires the use of the rupiah in cash and non-cash transactions (for example check, giro order, credit card, debit card, ATM card or electronic money) conducted within the territory of Indonesia, which covers: transactions conducted in Indonesia for the purpose of a payment; transactions conducted in Indonesia for the settlement of other obligations that must be fulfilled with money; and/or other financial transactions conducted in Indonesia.

There are exemptions to this regulation, which are: (1) specific transactions that are related to the implementation of Indonesia's state budget (APBN); (2) acceptance or provision of grants from/to overseas domicile; (3) international trade transactions (export and import of goods; and cross-border service trade activities such as online shopping, a call center, or Indonesian patients in hospitals abroad); (4) foreign exchange savings in banks; (5)

international financing transactions; (6) business activities conducted in foreign currencies by banks pursuant to the law regulating banking and sharia banking; (7) transactions using foreign currencies involving commercial (debt) paper issued by the Indonesian government in primary markets or secondary markets pursuant to the law regulating state debentures and state sharia commercial paper; (8) other transactions using foreign currencies conducted based on Bank Indonesia Law, the Capital Investment Law, and the Indonesian Export Financing Institutions Law.

- **Foreign Ownership of Property (Luxurious Apartments):** As reported previously, the Indonesian government plans to revise a law that bans foreign ownership of property in Indonesia (i.e. Government Regulation No. 41/1996 on Housing for Foreigners Residing in Indonesia). In a bid to boost tax revenue as well as the domestic property industry, the government will allow foreigners (expats) to buy, own, inherit and trade luxurious apartments that have a minimum value of IDR 5 billion (USD \$375,000). It is important to note that any other type of property in Indonesia cannot be owned by foreigners. However, Minister of Land Affairs and Spatial Planning Ferry Mursyidan Baldan, said late last week that foreigners will be allowed to own these luxurious (commercial) apartments under the so-called 'right-of-use' category (in Indonesian *hak pakai*), not the broader 'right-of-ownership' category (*hak milik*).
- **Relaxed Macroprudential Policy:** Bank Indonesia relaxed macroprudential policy by raising the loan-to-value (LTV/FTV) ratio for property loans and reducing the down payment on automotive loans as an effort to spur economic growth. The LTV/FTV ratio was increased 10% for landed houses, apartments as well as home stores/home offices from 22m² to 70m² and above. Meanwhile, the smaller down payment affects (sharia) automotive loans for two-wheelers as well as three-wheelers and more. The down payment has been reduced by 5%.

Table 1. LTV/FTV Policy for Conventional and Sharia Property Credit (Murabahah and Istishna)

Property Type (m ²)	1 st Credit Facility		2 nd Credit Facility		3 rd Credit Facility	
	Before	After	Before	After	Before	After
Landed House						
> 70	70%	80%	60%	70%	50%	60%
22-70	-	-	70%	80%	60%	70%
Up to 21	-	-	-	-	-	-
Apartment						
> 70	70%	80%	60%	70%	50%	60%
22-70	80%	90%	70%	80%	60%	70%
Up to 21	-	-	70%	80%	60%	70%
Home Store/Home Office						
	-	-	70%	80%	60%	70%

Table 2. LTV/FTV Policy for Sharia Property Credit (MMQ and IMBT)

Property Type (m ²)	1 st Credit Facility		2 nd Credit Facility		3 rd Credit Facility	
	Before	After	Before	After	Before	After
Landed House						
> 70	80%	85%	70%	75%	60%	65%
22-70	-	-	80%	80%	70%	70%
Up to 21	-	-	-	-	-	-
Apartment						
> 70	80%	85%	70%	75%	60%	65%
22-70	90%	90%	80%	80%	70%	70%
Up to 21	-	-	80%	80%	70%	70%
Home Store/Home Office						
	-	-	80%	80%	70%	70%

Table 3. Down payments on Automotive Loans

Vehicle Type	Conventional Banks and Islamic Banks	
	Before	After
Two-wheelers	25%	20%
Three-wheelers or non-productive	30%	25%
Three-wheelers or productive	20%	20%

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