1 MONETARY POLICY STATEMENT

The BI Board of Governors agreed on 15th and 16th March 2017 to hold the BI 7-day (Reverse) Repo Rate (BI-7 day RR Rate) at 4.75%, while maintaining the Deposit Facility (DF) and Lending Facility (LF) rates at 4.00% and 5.50% respectively, effective 17th March 2017. The decision is consistent with Bank Indonesia’s efforts to maintain macroeconomic and financial system stability amidst growing global uncertainty. Bank Indonesia continues to monitor and remains vigilant of various short term risks, both global and domestic. Global risks include rising global inflation, US economic and trade policy direction and Fed Fund Rate hike effects, as well as geopolitical risks from Europe. Domestically, the impact of administered prices (AP) on inflation still needs to be monitored. Therefore, Bank Indonesia constantly optimises its monetary, macroprudential and payment system policy mix to preserve macroeconomic and financial system stability. Furthermore, Bank Indonesia will continue to strengthen coordination with the Government, focusing on controlling inflation within the target corridor as well as accelerating structural reform programs to support sustainable economic growth.

Economic growth is expected to continue improving, despite a number of risks that need to be observed. The global economy continued to post positive growth on the back of the US and emerging markets economic gain as well as rising commodity prices. Consumption and investment continues to buoy the US economy, coupled with improvements in terms of employment and incomes. Moreover, international commodity prices, including oil and Indonesia’s export commodity prices, continue to rise. On the other hand, a number of global risks demand vigilance, including the increase of inflation in advanced economies that can trigger monetary tightening in said countries. Meanwhile, further FFR hikes can potentially boost USD strengthening and elevating cost of borrowing. The Brexit issue, along with geopolitical risks in several European countries due to growing populist sentiment and debt settlement in Greece, could exacerbate global uncertainty.

Indonesia’s economy is predicted to remain strong in the first quarter of 2017, compared to the previous quarter, driven by stronger investment, robust consumption and improving export performance. Non-building investment is predicted to gain traction, reflected by an uptick in sales of heavy equipment and cement. Household consumption is expected to continue increasing as indicated by a stable retail growth and positive consumer expectations. Meanwhile, government’s contribution towards consumption and investment tend to improve. Externally, export performance is predicted to improve as commodity prices increase. Consequently, the Indonesian economy is projected to grow in the 5.0-5.4% (yoy) range in 2017.

Indonesia’s trade balance recorded a surplus in February 2017, primarily supported by the non-oil and gas trade surplus. Indonesia’s trade balance stood at USD1.32 billion in February 2017, reducing from USD1.43 billion the month earlier but increasing from February 2016 surplus of USD1.14 billion. The surplus, among others, was due to increase in exports of palm, coal, rubber, and chemicals. On the other hand, non-resident capital recorded a net
inflow of USD2.2 billion (ytd) in February 2017. Consequently, the position of reserve assets stood at USD119.9 billion at the end of February, equivalent to 8.9 months of imports or 8.5 months of imports and servicing government external debt, which is well above the international standard of around three months.

The rupiah continued to appreciate in February 2017 in line with maintained macroeconomic stability and despite a backdrop of growing global uncertainty. On average, the rupiah appreciated by 0.17% (mtm) to Rp13,338/USD in the reporting period, supported by forex sales by exporter corporations along with improving exports, and a net inflow of foreign capital to purchase tradeable government securities (SBN) along with positive investor perception towards the domestic economy. Moving forward, Bank Indonesia will remain vigilant of emerging risks, including the US economic policy and the impact of FFR hikes as well as political uncertainty in several European countries. Therefore, Bank Indonesia will continue to implement the stabilisation measures necessary to ensure the rupiah remains consistent with the currency’s fundamental value, while maintaining market mechanisms.

Inflation was controlled in February 2017. CPI inflation was recorded at 0.23% (mtm) in February 2017, down from 0.97% (mtm) the month earlier, stemming from administered prices and core inflation, while volatile foods (VF) experienced deflation. Looking forward, Bank Indonesia will strengthen policy coordination with the Government to control inflation in response to several risks, including further adjustments to administered prices as the Government continues to reform energy subsidies as well as inflationary pressures on volatile foods. With that strategy, inflation is projected to remain within the target corridor of 4±1%.

The financial system remained stable, supported by solid banking industry resilience and maintained financial market stability. In January 2017, the Capital Adequacy Ratio (CAR) stood at 23.0% and the liquidity ratio at 21.8%, while non-performing loans (NPL) were recorded at 3.1% (gross) or 1.4% (net). Bank Indonesia has eased monetary and macroprudential policy, which successfully fed through to lower deposit rate by 128 bps (yoy) and lending rate by 80 bps (yoy). Accordingly, interest rates on working capital loans were lowered most significantly (112 bps, yoy), followed by investment loans (95 bps, yoy) and consumer loans (30 bps, yoy). Credit growth in January 2017 was recorded at 8.3% (yoy), accelerating from 7.9% (yoy) one month ago. Nonetheless, corporate consolidation and limited credit demand continues to squeeze the expansion of new loans. Deposit growth, however, was reported to accelerate from 9.6% (yoy) to 10.0% (yoy) in January 2017. Meanwhile, economic financing through the capital market, including IPO and rights issues, corporate bonds and medium-term notes (MTN), continue to increase. Credit and deposit growth are predicted to improve in 2017 in the range of 10-12% and 9-11% respectively, in line with increased economic activity and a looser monetary and macroprudential policy stance.
The global economy continued to expand, supported by economic gains in the United States and emerging market economies (EME) as well as rising commodity prices. US economic performance was buoyed by consumption and investment, accompanied by improving employment and income conditions. Nevertheless, several global risks remained, including nascent inflationary pressures in advanced countries, which could prompt a tighter monetary policy stance in the affected jurisdictions. Meanwhile, further Federal Funds Rate (FFR) hikes could potentially trigger appreciative pressures on the USD and raise the cost of borrowing. Moreover, the Brexit and geopolitical risks in several European countries due to growing populist sentiment, along with debt settlement risk in Greece, could exacerbate global uncertainty.

US economic performance was buoyed by consumption and investment, accompanied by improving employment and income conditions. According to the second estimate release, US GDP growth at 1.9% in the fourth quarter of 2016, consistent with the previous estimation. US GDP has increased compared to conditions one year earlier, bolstered by solid consumption and investment. Robust US consumption endured in the fourth quarter of 2016 (Graph 2.1), supported by improving employment conditions and higher average incomes (Graph 2.2). Employment sector gains persisted into February 2016, reflected by an unemployment rate of 4.7% (the same as NAIRU) and average income growth of 2.8%. In terms of investment, growth accelerated to 0.3% (yoy) in the fourth quarter of 2016, driven by non-residential investment (Graph 2.3). Consequently, US economic growth is predicted to accelerate in 2017 on the back of consumption and investment.
The economies of emerging market, including India, also showed signs of improvement. Consumption activities, reflected by stable automotive sales, amongst others, continued to drive India’s economy, supported by a more productive harvesting season and higher wages.

In contrast, economic growth in China is predicted to slow to 6.5% in 2017. Slower growth was attributed to growing risks in the financial sector, reflected by a debt to GDP ratio that has continued to soar, rising from 243% at the end of 2015 to 255% in June 2016 (Graph 2.4). In addition, pressures in the form of foreign capital outflows have also affected China’s economy, eroding China’s reserve assets to around USD3 trillion in February 2017 (Graph 2.5).

Graph 2.4. China Debt to GDP Ratio

Graph 2.5. China Foreign Exchange Reserves

International commodity prices, including oil, remain high. The Brent price of crude oil experienced an uptick to USD55.5 per barrel in February 2017 after OPEC and non-OPEC countries agreed to reduce production (Graph 2.6). In general, OPEC and non-OPEC signatories to the agreement have already cut production by 82% of the agreed amount. OPEC countries have successfully cut 91% of the agreed reductions, led by Saudi Arabia. Conversely, US oil production is expected to increase in 2017 and 2018, reflected by the growing number of US rigs that has increased by 364 units over the past 10 months, up 90% on the nadir reported in May 2016 (Graph 2.7).

Graph 2.6. Brent Oil Price

Graph 2.7. US Oil Production and Rig Count

Notwithstanding, several global risks continue to demand vigilance. In line with rising commodity prices, inflationary pressures are expected to begin accumulating in various countries, as evidenced by a rising Producer Price Index and Consumer Price Index in several major countries, while the international commodity price index accelerated to 41% in January 2017 (Graph 2.8 and Graph 2.9). Heightened inflationary pressures are also congruent with the current global economic recovery. Rising inflation in advanced countries could prompt a
tighter monetary policy response. Meanwhile, further Federal Funds Rate (FFR) hikes could potentially trigger appreciative pressures on the USD and raise the cost of borrowing. Moreover, the Brexit and geopolitical risks in several European countries due to growing populist sentiment, along with debt settlement risk in Greece, could exacerbate global uncertainty.

![Graph 2.8. Producer Price Index and Commodity Price Index](source)

### Economic Growth

At home, economic growth accelerated on strong household consumption along with improvements in exports and investment. Positive consumer expectations and retail sales data pointed to robust consumption. On the other hand, non-construction investment drove investment activity, while persistently high commodity prices boosted export performance.

Solid household consumption was predicted in line with growing consumer optimism. The Consumer Expectation Index reflected upbeat consumers and, therefore, solid consumption (Graph 2.10). Growing consumer optimism is also expected to drive household consumption in the first quarter of 2017. Furthermore, increased consumer loans was also indicative of more consumer spending, while controlled inflation within the target corridor also helped to maintain public purchasing power. In addition, positive and stable retail sales growth also pointed to robust consumption growth (Graph 2.11).

![Graph 2.10. Consumer Confidence Index](source)

![Graph 2.11. Retail Sales](source)

Government consumption is also predicted to accelerate in the first quarter of 2017, supported by greater realisation of personnel expenditure. Rising commodity prices will invigorate government revenues and, hence, catalyse government spending. By type of spending, personnel expenditure and goods procurement are projected to grow in positive territory.
Investment growth is expected to accelerate in the first quarter of 2017 compared to conditions in the previous period. Improving investment performance is underpinned by non-construction investment as reflected by increasing sales of heavy equipment in January 2017 (Graph 2.12). In addition, the Bank Indonesia PMI index was observed to rally in the first quarter of 2017 on the back of production volume gains (Graph 2.13). On the other hand, cement sales data corroborated sluggish construction investment growth, which has begun to accelerate but remains low. Notwithstanding the gains, government capital spending on infrastructure projects through to February 2017 was limited.

On the external sector, exports are projected to improved in line with rising commodity prices. The upward export price trend persisted into the first quarter of 2017, with 17.4% (yoy) growth posted in February 2017 (Graph 2.14), and consequently boosted export performance. Furthermore, the agricultural product price index has also continued to increase, primarily supported by vegetable oil. Meanwhile, the prices of mining and manufacturing products posted solid gains, which are expected to drive export performance further (Graph 2.15).

Recent development indicate the Indonesia’s economy to grow at a range of 5.0-5.4% (yoy) in 2017. In 2017, the economic recovery is expected to persist as export performance improves and investment begins to pick up on increased economic financing. Meanwhile, stable household consumption growth is expected.
Indonesia Balance of Payments

Indonesia’s Balance of Payments (BOP) recorded a surplus in February 2017, primarily backed by the tenacious non-oil and gas trade surplus. Indonesia’s trade surplus was recorded at USD1.32 billion in February 2017, down from USD1.43 billion the month earlier but up from USD1.14 billion in February 2016 (Graph 2.16). The surplus reduced due to an increase in the oil and gas trade deficit that exceeded the increase in the non-oil and gas trade surplus.

![Graph 2.16. Trade Balance](source: BPS, processed)

![Graph 2.17. Flow of Funds By Nonresident on Rupiah Assets](source: Bank Indonesia, IDX, Bloomberg, processed)

The non-oil and gas trade surplus stood at USD2.55 billion in February 2017, increasing significantly on the USD1.99 billion posted one month earlier. The larger surplus stemmed from a USD1.31 billion decline in non-oil and gas imports that surpassed the corresponding USD0.75 billion decrease in non-oil and gas exports. Non-oil and gas imports declined on shipments of machinery and mechanical appliances, electrical machinery and equipment, plastics and articles thereof, arms and ammunition, as well as jewelry/gems, while exports declined on animal and vegetable fats and oils, mineral fuels, iron and steel, metal ore, crust and dust as well as copper.

The oil and gas trade deficit widened from USD0.56 billion in January to USD1.23 billion in February 2017. Widened deficit mainly contributed from a USD0.60 billion increase in oil and gas imports, coupled with a USD0.07 billion decline in oil and gas exports, in the reporting period.

Foreign portfolio inflow to domestic financial markets amounted to USD389 million in February 2017, thus bringing the cumulative total to USD2.2 billion (Graph 2.17). In February 2017, non-resident investors expanded holdings of domestic assets, namely government debt securities (SUN), to the tune of USD418 million. In contrast, residents released equity totalling USD60 million in the same period, down from USD72 million the month earlier.

The position of reserve assets stood at USD119.9 billion at the end of February 2017, increasing from USD116.9 billion at the end of January 2017 (Graph 2.18). The increase stemmed from tax revenues as well as oil and gas proceeds for the government, government withdrawals of offshore loans, and auctions of Bank Indonesia Foreign Exchange Bills (Bi FX Bills). In addition, foreign exchange receipts exceeded the requirement to service government external debt and mature Bi FX Bills. Consequently, the position of reserve assets at the end of February 2017 was equivalent to 8.9 months of imports or 8.5 months of imports and servicing government external debt, which is well above the international standard of around three months.
Rupiah Exchange Rate

The rupiah continued to strengthen in February 2017 in line with maintained macroeconomic stability and despite a backdrop of growing global uncertainty. On average, the rupiah appreciated by 0.17% (mtm) to Rp13,338 in the reporting period and by 0.12% on point-to-point from Rp13,352 to Rp13,336 per USD (Graph 2.19). Year-to-date, rupiah appreciation was recorded at 1.02% (Graph 2.20). A net inflow of foreign capital to purchase tradeable government securities (SBN) helped to bolster rupiah appreciation.

External and domestic factors prompted rupiah appreciation. Externally, upside pressures on the rupiah originated from the uncertainty of US policy direction, which stoked negative sentiment against the USD. At home, however, the rupiah was influenced by positive sentiment concerning economic growth in 2016 compared to conditions in 2015, as well as the upgrade of Indonesia’s sovereign credit rating outlook by Moody's from stable to positive.

Rupiah appreciation was accompanied by less volatility. Year-to-date, rupiah volatility was lower than the average of peer countries. In addition, the rupiah was the least volatile currency in February 2017 compared to the lira (Turkey), real (Brazil), won (South Korea), rand (South Africa) Singaporean dollar (Singapore), peso (Philippines), rupee (India), bath (Thailand) and ringgit (Malaysia) (Graph 2.21).
Bank Indonesia will remain vigilant of the risks, however, including US policy direction and the impact of further, more aggressive, FFR hikes this year, along with political uncertainty spreading through Europe. Therefore, Bank Indonesia will constantly implement the stabilisation measures necessary to maintain the rupiah in line with the currency’s fundamental value, while maintaining market mechanisms.

Inflation

February inflation was controlled with a lower realisation than in the previous period. CPI inflation in February 2017 was recorded at 0.23% (mtm), down from 0.97% (mtm) the month earlier. Administered prices and core inflation were the main contributors to headline inflation in the reporting period, while volatile foods experienced deflation. Therefore, annual CPI inflation stood at 3.83% (yoy) (Graph 2.22), which is within the target corridor of 4±1% in 2017.

Core inflation was observed to decelerate in February 2017 on the previous month. Core inflation was recorded at 0.37% (mtm), down from 0.56% (mtm), or 3.41% (yoy) annually. Core inflation has performed in line with historical trends over the past five years. Lower core inflation realisation contributed from non-traded inflation, while traded inflation was noted to increase (Graph 2.23).

The main contributors to non-traded core inflation included mobile phone tariffs, domestic workers’ wages as well as house rentals (Table 2.1). Meanwhile, traded core inflation was influenced by rising international commodity prices, particularly iron and steel, wheat, sugar and gold. The results of Bank Indonesia’s survey in February 2017 also confirmed higher
inflation expectations at the consumer and retailer levels for the upcoming three and six months (Graph 2.24).

### Table 2.1. Contributors of Inflation/Deflation to Core Inflation

<table>
<thead>
<tr>
<th>No.</th>
<th>Commodity</th>
<th>Inflation (%)</th>
<th>Contribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mobile phone rate</td>
<td>2.32</td>
<td>0.05</td>
</tr>
<tr>
<td>2</td>
<td>Jewelry</td>
<td>2.61</td>
<td>0.03</td>
</tr>
<tr>
<td>3</td>
<td>Maid wages</td>
<td>1.39</td>
<td>0.02</td>
</tr>
<tr>
<td>4</td>
<td>Houses contracts</td>
<td>0.33</td>
<td>0.01</td>
</tr>
<tr>
<td>5</td>
<td>House rent</td>
<td>0.23</td>
<td>0.01</td>
</tr>
</tbody>
</table>

Source: BPS, processed

Milder inflationary pressures on administered prices (AP) were reported in February 2017. AP inflation recorded at 0.58% (mtm) in February 2017, falling from 0.97% (mtm) the month earlier, and 4.74% (yoy) annually (Graph 2.25). Deflation of airfares was the main drag on AP inflation, while rising prices of electricity tariffs, petrol, and various cigarettes were disclosed as the main contributors of AP inflation (Table 2.2).

### Table 2.2. Contributors of Inflation/Deflation to Administered Prices

<table>
<thead>
<tr>
<th>No.</th>
<th>Commodity</th>
<th>Inflation/Deflation (%)</th>
<th>Contribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>INFLATION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Electricity tariff</td>
<td>2.67</td>
<td>0.11</td>
</tr>
<tr>
<td>2</td>
<td>Fuel</td>
<td>0.36</td>
<td>0.01</td>
</tr>
<tr>
<td>3</td>
<td>White clove flavor cigarettes</td>
<td>0.58</td>
<td>0.01</td>
</tr>
<tr>
<td>4</td>
<td>Cigarettes</td>
<td>0.75</td>
<td>0.01</td>
</tr>
<tr>
<td>5</td>
<td>White clove cigarettes</td>
<td>0.92</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>DEFLATION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Air transport fares</td>
<td>-3.52</td>
<td>-0.04</td>
</tr>
</tbody>
</table>

Source: BPS, processed

Volatile foods (VF) experienced deflation in February 2017. VF deflation was recorded at 0.36% (mtm), thus bringing annual inflation to 4.46% (yoy) (Graph 2.26). Deflation mainly originated from price corrections on red chilli, chicken meat, and eggs. Nonetheless, further deflation was offset by rising prices of bird’s eye chilli and shallots (Table 2.3).
Spatially, mild inflationary pressures were reported in most areas of Indonesia (Figure 2.1). Inflation rates on the island of Java and in Eastern Indonesia were recorded at 0.36% (mtm) and 0.31% (mtm) respectively. Most regions of Sumatra recorded deflation, thus bringing the aggregate deflation to 0.20% (mtm). Deflation on Sumatra primarily stemmed from price corrections to red chillies in Jambi, Aceh, and North Sumatra in line with abundant supply from local production hubs. Meanwhile, low inflation in Eastern Indonesia and on Java was attributable to minimal inflationary pressures on foods, coupled with lower prices of chicken meat, chicken eggs, and rice.

Bank Indonesia will continue to steer inflation within the target corridor of 4±1% in 2017. To that end, Bank Indonesia will strengthen policy coordination with the Government to control inflation in the face of several risks related to administered prices as the Government continues to implement energy reforms, as well as the risks associated with rising volatile food prices.

**Monetary Developments**

Easing on monetary policy stance was successfully transmitted through the interest rate and credit channels. Monetary policy transmission through the interest rate channel persisted but with the banking industry lowering lending and deposit rates at differing magnitudes. Accordingly, the banks lowered deposit rates to a greater degree than lending...
rates. Meanwhile, monetary policy transmission through the credit channel improved, indicated by stronger credit growth. On the other hand, liquidity in the economy (M2 or broad money) decelerated due to a seasonal contraction of central government financial operations at the beginning of the year. The stock market and government bond market rallied on positive global investor sentiment, while nonbank financing continued to track an upward trend.

The overnight (O/N) interbank rate increased in February 2017 in line with a shift of bank liquidity placements. The average daily O/N interbank rate stood at 4.24% in February 2017, increasing 10bps on the 4.14% posted the month earlier. The increase affected short-term tenors, namely overnight and up to 1 week. In contrast, interest rates on longer tenors actually increased, which is an early indication of banks moving their liquidity to longer duration monetary operation instruments (Graph 2.27). Growing bank confidence in terms of adequate liquidity on the money markets along with stable demand for short-term funds precipitated the shift in liquidity placements.

Interbank money market liquidity was maintained, indicated by an increase in volume and maintained max-min spread. In February 2017, the average volume of the interbank money market totalled Rp7.81 trillion, up from Rp6.88 trillion the month earlier (Graph 2.28). The volume increase was indicative of more active money market transactions in line with the shift towards longer-term instruments. The banking industry actively exploited the interbank money market to meet the need for short-term liquidity. Meanwhile, the O/N interbank max-min spread widened 4bps on the previous period to 14bps despite an increase in daily average of O/N interbank. Spread recorded in February 2017 was also lower than in the same period the previous year (26 bps).

The banking industry responded to the easing on monetary and macroprudential policy stance maintained by Bank Indonesia by lowering deposit rates and lending rates. In January 2017, the weighted average deposit rate fell 6bps to 6.66% after increasing slightly at yearend 2016 as the banks bolstered their term deposit positions towards the end of the year. The banks primarily targeted long-term tenors of 24 months and 12 months, reducing them respectively by 24bps and 4bps to 7.14% and 7.27%. As an aggregate, the banks have lowered deposit rates 128bps since January 2016.

On the other hand, the banking industry lowered its lending rates just 1bps in January 2017 to 12.03%, after reducing rates by 12bps the month earlier (Graph 2.29). Since January 2016, the banking sector has reduced lending rates a total of 80bps as an aggregate, most significantly affecting working capital loans (112bps), followed by investment loans (95bps).
and consumer loans (30bps). Therefore, the spread between deposit rates and lending rates in January 2017 widened 4bps on the previous month to 537bps (Graph 2.30).

Growth of liquidity in the economy (M2 or broad money) decelerated on slower M1 and quasi-money growth. In January 2017, M2 growth was recorded at 9.2% (yoy), decelerating from 10.0% (yoy) the month earlier due to M1 and quasi-money, for which growth was observed to slow respectively from 17.3% (yoy) and 7.9% (yoy) in December 2016 to 15.0% (yoy) and 7.4% (yoy) in the reporting period (Graph 2.31). In contrast, growth of securities other than shares accelerated from 0.94% (yoy) to 6.89% (yoy) over the same period.

Based on its determinants, weaker growth of Net Domestic Assets (NDA) fed through to slower M2 growth. In January 2017, NDA growth was reported at 7.56%, down from 9.90% (yoy) in December 2016, in line with a contraction of financial operations by the central government and reflected by an increase in BI obligations to the central government (government deposits held at Bank Indonesia), which soared 32.8% (yoy) on the back of increased tax revenues. On the other hand, Net Foreign Assets (NFA) accelerated from 10.39% in December 2016 to 13.89% in February 2017 (Graph 2.32).

The Banking Industry

The banking industry maintained resilience, supported by adequate liquidity and mitigated credit risk. In January 2017, the liquidity ratio stood at 21.8% and the Capital Adequacy Ratio (CAR) at 23.0%, which is well above the 8% threshold and reflects solid banking industry resilience to shocks in the economy. Meanwhile, the ratio of non-performing loans (NPL) was reported at 3.1% (gross) and 1.4% (net) in January 2017.
The banking industry confirmed that credit growth accelerated in January 2017, driven by all loan types in rupiah and foreign currency. Credit growth was reported at 8.3% (yoy) in the reporting period, up from 7.9% (yoy) one month earlier, with the increase affecting all loan types (working capital loans, investment loans and consumer loans) (Graph 2.33). Credit growth in January 2017 was also buoyed by foreign currency loans, which have remained in positive territory since the fourth quarter of 2016. Nonetheless, the lending gains were relatively limited due to ongoing corporate consolidation and muted demand for new loans.

By sector, the most significant credit growth gains in January 2017 were found to affect the mining sector. Loans disbursed to the mining sector reversed the previous contraction of 6.6% (yoy) to record positive growth of 5.1% (yoy). In addition, credit growth to the manufacturing industry, which dominates market share, accelerated from 2.8% (yoy) the month earlier to 3.8% (yoy). Furthermore, the social services sector and construction sector also contributed to faster credit growth (Graph 2.34).

Deposit growth was also confirmed to accelerate in the reporting period on the back of savings deposits and term deposits. Deposit growth accelerated from 9.6% (yoy) to 10.0% (yoy), with growth of savings deposits and term deposits observed to accelerate, while demand deposits slowed. Accordingly, growth of savings deposits and term deposits increased respectively from 11.2% (yoy) and 6.5% (yoy) to 11.9% (yoy) and 7.7% (yoy), while demand deposits decelerated from 13.8% (yoy) to 12.3% (yoy) (Graph 2.35).

Bank Indonesia predicts credit and deposit growth to improve in 2017 in line with the expected acceleration of economic activities, coupled with the impact of ease on monetary and macroprudential policy. In general, credit and deposit growth is predicted at 10-12% and 9-11% respectively in 2017.
The Stock Market and Government Securities Market

The domestic stock market rallied in February 2017 on positive global sentiment. Despite widespread profit-taking by investors, the Jakarta Composite Index (JCI) climbed 93 points (1.75%, m/m) on the position in the previous month to close at a level of 5,386.69 (28th February 2017). The JCI rallied on positive global and domestic sentiment. Externally, positive sentiment was linked to market expectations concerning the planned FFR hike, which will depend on the US economic outlook. US economic indicators released in February 2017 evidenced lacklustre performance, with the housing and wages data pointing to slower growth, which reinforced signals that the Federal Reserve will continue to normalise its interest rate policy gradually. A rising oil price and manufacturing data from China that exceeded market expectations also contributed to the domestic stock market rally.

At home, favourable market expectations regarding the promising national economic outlook drove gains on the domestic stock market. Domestic optimism originated from the release of several reports that were consistent with market expectations, including the financial statements of issuers in 2016 and economic growth data for 2016, controlled inflation, as well as trade balance data that surpassed market expectations. Furthermore, the reference rate, which Bank Indonesia decided to hold at 4.75%, also maintained positive sentiment, along with Moody’s upgrading Indonesia’s rating outlook to positive.

Gains on the domestic stock market were congruent with solid global stock exchange performance (Graph 2.36). The JCI outperformed several global bourses in February 2017, including Singapore (STI), Hong Kong (Hang Seng) and Kuala Lumpur (KLCI). Meanwhile the stock exchange in Vietnam achieved higher growth of 1.9% (m/m).

JCI gains were supported by most sectoral indexes. The most significant increase affected the miscellaneous industries sector (5.0%, m/m), bolstered by rising share prices in the automotive industry. Shares in the financial sector also enjoyed 3.2% (m/m) growth despite profit-taking by large bank issuers. Conversely, shares in the agricultural and property sectors experienced corrections of 5.7% (m/m) and 0.9% (m/m) respectively (Graph 2.37).

In February 2017, non-resident investors booked a net sell on the domestic stock market. Foreign investors booked a net sell totalling Rp0.81 trillion in the reporting period, improving from Rp0.97 trillion the month earlier (Graph 2.38). Consequently, the portion of non-resident investors on the domestic stock market expanded from 27.8% to 31.2% (Graph 2.39) over the same period.

![Graph 2.36. JCI and Global Stock Index](image)

Source: Bloomberg

![Graph 2.37. Sectoral Index](image)

Source: Bloomberg

Monetary Policy Review

March 2017
Consistent with stock market performance, the SBN market also rallied. In February 2017, SBN yield was observed to drop 8bps from 7.60% to 7.52%. Short-term yields remained stable at 7.05%, while medium and long tenors fell 12bps and 11bps respectively to 7.53% and 8.13%. Meanwhile, the benchmark 10-year yield decreased a total of 11bps from 7.65% to 7.54% (Graph 2.40).

Non-resident investors booked a net buy of tradable government securities (SBN). In contrast to the stock market, foreign investors booked a net buy totalling Rp6.40 trillion in February 2017, down however from Rp19.7 trillion the month earlier. Consequently, foreign investor SBN holdings shrank from 37.0% to 36.5% in the reporting period (Graph 2.41).

**Nonbank Financing**

Nonbank economic financing continued to accelerate. As of February 2017 (ytd), total financing through initial public offerings (IPO), rights issues, corporate bonds, medium-term notes (MTN), Negotiable Certificates of Deposit (NCD) and other financial instruments reached Rp19.0 trillion, exceeding the Rp18.2 trillion posted in the same period one year earlier. In fact, nonbank economic financing has reached its highest level for the past five years, after Rp26.1 trillion was recorded in 2011 (Table 2.4).
Table 2.4. Nonbank Financing

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>IPO + Rights Issue</td>
<td>18.0</td>
<td>2.4</td>
<td>2.1</td>
<td>2.2</td>
<td>0.2</td>
<td>0.4</td>
<td>1.4</td>
</tr>
<tr>
<td>o/w Financial Sector Issuers</td>
<td>12.7</td>
<td>-</td>
<td>-</td>
<td>2.2</td>
<td>-</td>
<td>0.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Bonds</td>
<td>8.0</td>
<td>9.6</td>
<td>8.7</td>
<td>2.8</td>
<td>7.9</td>
<td>13.5</td>
<td>13.2</td>
</tr>
<tr>
<td>o/w Financial Sector Issuers</td>
<td>8.0</td>
<td>8.3</td>
<td>7.3</td>
<td>1.1</td>
<td>7.6</td>
<td>13.5</td>
<td>11.6</td>
</tr>
<tr>
<td>MTN + NCD</td>
<td>0.2</td>
<td>0.7</td>
<td>0.5</td>
<td>0.7</td>
<td>3.9</td>
<td>4.4</td>
<td>4.5</td>
</tr>
<tr>
<td>o/w Financial Sector Issuers</td>
<td>0.0</td>
<td>0.4</td>
<td>0.4</td>
<td>0.6</td>
<td>2.6</td>
<td>3.9</td>
<td>3.2</td>
</tr>
<tr>
<td>Total</td>
<td>26.1</td>
<td>12.7</td>
<td>11.3</td>
<td>5.7</td>
<td>12.0</td>
<td>18.2</td>
<td>19.0</td>
</tr>
<tr>
<td>Total o/w Financial Sector Issuers</td>
<td>20.7</td>
<td>80.7</td>
<td>7.7</td>
<td>3.9</td>
<td>10.2</td>
<td>17.6</td>
<td>15.4</td>
</tr>
</tbody>
</table>

*Source: OJK, processed*

External dynamics precipitated the upward trend of nonbank financing. The increase of nonbank financing at the beginning of the year was a consequence of market expectations concerning three potential FFR hikes in 2017. The markets also speculated that the next FFR hike will take place in March 2017. A higher Federal Funds Rate (FFR) would prompt financial market corrections in developing countries, including Indonesia. Consequently, the yields of government debt securities (SUN), which are used as a reference for corporate bond coupons, could potentially increase. Considering such conditions, the corporate sector was inclined to issue bonds at the beginning of the year to avoid higher yields and mitigate pressures on the cost of funds. In addition, domestic economic fundamentals are currently considered conducive to issuers seeking financing from the financial markets, including Bank Indonesia’s decision to hold the reference rate, GDP data for 2016 that was consistent with market expectations, trade balance data in January 2017 that exceeded expectations, and the upgrade affirmed by Moody’s concerning Indonesia’s rating outlook from stable to positive.
MONETARY POLICY RESPONSE

The BI Board of Governors agreed on 15th and 16th March 2017 to hold the BI 7-day (Reverse) Repo Rate (BI-7 day RR Rate) at 4.75%, while maintaining the Deposit Facility (DF) and Lending Facility (LF) rates at 4.00% and 5.50% respectively, effective 17th March 2017. The decision is consistent with Bank Indonesia’s efforts to maintain macroeconomic and financial system stability amidst growing global uncertainty. Bank Indonesia continues to monitor and remains vigilant of various short term risks, both global and domestic. Global risks include rising global inflation, US economic and trade policy direction and Fed Fund Rate hike effects, as well as geopolitical risks from Europe. Domestically, the impact of administered prices (AP) on inflation still needs to be monitored. Therefore, Bank Indonesia constantly optimises its monetary, macroprudential and payment system policy mix to preserve macroeconomic and financial system stability. Furthermore, Bank Indonesia will continue to strengthen coordination with the Government, focusing on controlling inflation within the target corridor as well as accelerating structural reform programs to support sustainable economic growth.
The Monetary Policy Review (MPR) is published monthly by Bank Indonesia after the Board of Governors’ Meeting each January, March, April, June, July, September, October and December. This report is intended as a medium for the Board of Governors of Bank Indonesia to present to the public the latest evaluation of monetary conditions, assessment, and forecast for the Indonesian economy, in addition to the Bank Indonesia monetary policy response published quarterly in the Monetary Policy Report in April, July, October, and December. Specifically, the MPR presents an evaluation of the latest developments in inflation, the exchange rate, and monetary conditions during the reporting month and decisions concerning the monetary policy response adopted by Bank Indonesia.

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Perry Warjiyo – Deputy Governor
Erwin Rijanto – Deputy Governor
Sugeng – Deputy Governor
Rosmaya Hadi – Deputy Governor

Monetary Policy Review
March 2017