Monetary Policy Review

Economy, Monetary, and Banking

March 2013
For further information:
Short-term Outlook and Policy Dissemination Division
Monetary Policy Group
Economic Research and Monetary Policy Department

Phone : +62 21 381 8180
       +62 21 381 8163
       +62 21 381 8119
Fax : +62 21 345 2489
Email : bkm_tod@bi.go.id
Website : http://www.bi.go.id
Monetary Policy Review
March 2013

The Monetary Policy Review (MPR) is published monthly by Bank Indonesia after the Board of Governors’ Meeting each January, February, March, May, June, August, September, and November. 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.

Board of Governors

Darmin Nasution  Governor
Hartadi A. Sarwono  Deputy Governor
Halim Alamsyah  Deputy Governor
Ronald Waas  Deputy Governor
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I. MONETARY POLICY STATEMENT

In the Board of Governors’ Meeting convened on March 7th, 2013, Bank Indonesia decided to hold the BI Rate at 5.75%. The current policy rate is considered consistent with inflation target range of 4.5%±1% in 2013 and 2014. Indonesia’s economy is still showing a good performance, even though there are indications of investment activity moderation since Q4 2012. Going forward, Bank Indonesia will monitor the inflation, mainly inflation that comes from volatile foods. Bank Indonesia is confident that with the strengthening of monetary and macroprudential policy mix, as well as solid coordination with the government, will be able to achieve the inflation target and promote external balance in order to support sustainable economic growth.

Indonesia’s economy in the Q1 2013 will grow in line with forecasts 6.2%, supported mainly by strong domestic demand. Consumption grows quite strong as consumer confidence and purchasing power improved. Meanwhile, various indicators suggested moderate investment growth, particularly non-construction investment, amid quite strong construction investment. The indication is also seen on decelerating imports growth, especially imports of capital goods. On the other hand, exports to major trading partner countries, especially China, United States of America (USA) and India, is expected to increase. For the whole of 2013, after taking into account the economic activity in the next quarters, including spending related with the preparation for General Election in 2014, economic growth is forecasted toward the lower range of 6.3%-6.8%.

On the external side, the current account deficit is expected to decline in the Q1 2013. Lessen current account deficit is supported by increasing exports in line with improvement in international commodity prices. Meanwhile, non-oil and gas imports are predicted to weaken amid the risk of increasing oil and gas imports that is need to be wary. On the other hand, capital inflows in foreign direct investment (FDI) and portfolio investment, are expected to remain high amid strong demand for foreign currency liquidity in domestic market, among others, for the purpose of oil and gas imports. In line with that development, international reserves by the end of February 2013 reached USD105.2 billion, or equivalent to 5.7 months of imports and government’s external debt service, above the adequacy level of international standards.
In February 2013, the depreciation pressure on rupiah tended to subside so as to achieve an average Rp9.680 per dollar. Compared to the beginning of 2013, the rupiah exchange rate appreciated by 0.31%. Exchange rate stabilization policy adopted by Bank Indonesia, including the strengthening of foreign exchange intervention mechanism and the formation of a reference to the rupiah exchange rate in the domestic market, increase market confidence. In addition, exchange rate stability is also supported by non-residents’ fund flows into the rupiah instrument that reached Rp27.6 trillion. Going forward, Bank Indonesia continues to maintain the stability of the exchange rate in accordance with the economic fundamentals.

CPI inflation in February 2013 reached 0.75% (mtm) or 5.31% (yoy). Core inflation remained under control at 4.29% (yoy) in line with restrained price of global nonfood commodity and contained depreciation of the rupiah. On the other side, inflationary pressure was mainly derived from high volatile foods, among others, as the impact of weather disturbances and the limited supply of horticultural commodities from import. Meanwhile, administered price inflation is quite high pushed by electricity rate hike. Inflationary pressure is expected to ease as the harvest cycle and for the whole of 2013 is expected to remain subdued in the target range. Going forward, Bank Indonesia continues to strengthen coordination through inflation taskforce at national level (TPI) and regional level (TPID) to secure the supply and distribution of goods.

The financial system stability and banking intermediation function are properly maintained. A solid banking industry performance is reflected in the high capital adequacy ratio (CAR), which is well above the minimum 8% and the maintained ratio of non-performing loans (NPL) gross below 5%. Meanwhile, credit growth until the end of January 2013 reached 23.0% (yoy), relatively stable compared to the previous month. Working capital and investment credits grew quite high at 24.0% (yoy) and 25.5% (yoy), respectively. Meanwhile, consumer credit grew 19.8% (yoy). Going forward, Bank Indonesia believes that the financial stability will be maintained with improvement in the banking intermediary function in line with the increase in Indonesia’s economic performance.
II. THE ECONOMY AND MONETARY POLICY

Economic Growth in Indonesia

The Indonesian economy is predicted on track for brisk 6.2% growth in Q1 2013, in keeping with earlier forecasts. The persistent strength of domestic demand and gradual recovery in external performance is expected to provide the main driving force for economic growth. Household consumption continues to forge ahead in keeping with robust consumer confidence and potential for improvement in public purchasing power. Government consumption is forecasted to increase in keeping with the acceleration of budget absorption at the start of the year. Similarly, the outlook for investment is sustained high growth despite indications of a more moderate trend in non-construction investment amid vigorous expansion in construction investment. These indications of moderating growth were also evident in a tapering movement in import growth, led by capital goods. On the other hand, exports are set to improve with the upbeat performance in some of Indonesia’s major trading partners, led by China, the US and India, the renewed surge in international commodity prices and faster than expected recovery in mining exports.

In Q1 2013, household consumption is predicted to maintain brisk growth, despite potential slightly less than forecasted performance. This is borne out in the continued strength of the Bank Indonesia Consumer Confidence Index (CCI) in February 2013, despite modest decline (Graph 2.1). The most important factor in this development is the lower index of confidence in current economic conditions compared to 6 months previously. Similar to the Bank Indonesia CCI, the Consumer Tendency Index (CTI) published by Statistics Indonesia (BPS) also slipped lower in Q1 2013. In January 2013, retail sales also registered slightly less growth due to pressure in the categories of food and beverages, household goods, communications and other goods (clothing) (Graph 2.2). Nevertheless, according to the findings of the Bank Indonesia Consumer Survey in early February 2013, retail sales are expected to rebound as borne out in a rise in the survey’s index for timeliness of durable goods purchases index during that month. Car sales at the beginning of the year were on the rise, but sales of motorcycles maintained a downward trend to the end of January 2013 (Graph 2.3). Despite this, expectations of future price increases as indicated by the Bank Indonesia Consumer Survey represent an incentive for consumers to buy early.
Higher incomes in combination with subdued inflation are predicted to sustain the buoyant level of consumer purchasing power. Confidence in current incomes and expectations for future incomes were stable at a high index level. The purchasing power of the formal labour force is predicted to rise in line with real increases in provincial minimum wage levels in 2013 averaging 18.3%. On the financing side, real consumption credit extended by the banking system, which represents one funding source for consumption, maintained quite vigorous growth alongside a downward trend in consumption credit interest rates. Consumer financing provided by non bank financial institutions is also on the rise.

Investment is forecasted to maintain vibrant growth in Q1 2013, despite a moderating trend. This investment performance is commensurate with the sustained high growth in household consumption alongside the potential for gradual improvement in exports. In addition, the positive outlook for investment is reflected in keen business optimism against the background of a conducive business climate. The findings of the Business Survey (BS) indicate that investment value will maintain an upward trend in the first half of 2013 (Graph 2.4), dominated by new investments. Economic sectors with high levels of investment planning include manufacturing, the financial sector, real estate and corporate services. Despite this, potential exists for investment growth to taper off in response to more modest growth in household consumption compared to earlier forecasts. The slowing pace of import growth, in particular for capital goods during January 2013, is one indication that portends a levelling off in investment expansion.

Key to investment performance is the sustained growth in construction investment. Investment in building construction is expanding more rapidly in response to economic activity, as reflected in the brisk pace of property sales. Indicators of this construction activity include the relatively strong surge in cement sales (Graph 2.5). Sales of heavy construction equipment also showed improvement, although growth remained in negative territory. The magnitude of potential for investment growth in property is reflected in Jakarta’s rating to the top investment destination in the Asia Pacific, up from 11th place in the preceding year (Emerging Trends in Real Estate Asia Pacific 2013 survey by Price Waterhouse Coopers and Urban Land Institute). In non construction investment, investment in machinery has potential for reduced growth, as indicated by the downturn...
in imports of capital goods during January 2013, led by machinery and
transportation equipment for industrial use. Nevertheless, investment
in transportation equipment is marked by steady upbeat growth, as
indicated by stable imports of passenger cars (as capital goods) and sales of
commercial vehicles. Despite this, imports of motor vehicle spare parts and
industrial vehicles were marked by decline in early 2013.

Exports are forecasted to gain momentum in Q1 2013, in keeping
with expectations for recovery in the world economy. The improving
trend in export commodity prices and the economies of key trading
partners, notably China, the US and India, will boost Indonesia’s export
performance. Movement in leading indicators also suggests that early in
2013, exports had entered an expansionary phase. This is consistent with
the sustained improvement in expectations for global economic recovery,
particularly in emerging economies such as China and India. In early 2013,
the slowdown in exports was restrained by the onset of gains in exports of
manufactured, agricultural and mining products, albeit on a limited scale
(Graph 2.6). Improvement in manufactured exports was driven by rising
demand for exports of textiles and textile products, crude palm oil (CPO)
and rubber products. Mining exports are up in response to sharp increases
in exports of coal and copper. On the other hand, the contraction in oil
and gas exports brought about by failure to achieve targeted levels of oil
lifting is set to carry forward in 2013.

Import growth is predicted to taper somewhat during Q1 2013,
while maintaining quite brisk expansion. The still high level of import
growth is consistent with the sustained strength of domestic demand
and gradual improvement in exports. This forecast is supported by
movement in leading import indicators, which remain in an expansionary
phase, bolstered by rising external demand and continuing solid domestic
demand. In early Q1 2013, imports of raw materials showed indications of
growth, led by raw materials for manufacturing including processed food
and beverages for industry (Graph 2.7). In contrast, imports of consumer
goods and capital goods remained on a downward trend reflected
across almost all components of these imports, with the exception of
non-industry transportation equipment and capital goods other than for
transportation. Imports of oil and gas have potential to climb yet higher
due to flagging oil production early in the year and the government
plan to hold back from raising fuel prices, a policy that necessitates high
volumes of imported oil.
In disaggregation by sector, economic performance is predicted to maintain buoyant expansion in Q1 2013. Upbeat growth is forecasted in the manufacturing sector on the back of strong domestic demand and recovery in exports. The strengthening growth in agriculture is driven by higher performance in the food crops subsector brought about by the delayed onset of the rainy season in the preceding quarter. The considerable rainfall in Q1 2013 will boost productivity in the food crops subsector, due to cultivation of rice in rain-catchment paddy fields. The trade, hotels and restaurants sector is forecasted to maintain vibrant growth possibly exceeding forecasted levels, bolstered by vibrant domestic activity and faster than predicted recovery in the export trade. Similarly, the transport and communications sector is expected to keep surging ahead on buoyant performance in aviation and sizeable potential for data communications. The construction sector continues to forge ahead on vibrant activity in construction and investment. However, weaker growth is forecasted in the mining sector due to falling output of oil and natural gas.

**Indonesia Balance Of Payments**

On the external side, the current account deficit is expected to decline in the Q12013. Lessen current account deficit is supported by increasing exports in line with improvement in international commodity prices. Meanwhile, non-oil and gas imports are predicted to weaken amid the risk of increasing oil and gas imports that is need to be wary. On the other hand, capital inflows in foreign direct investment (FDI) and portfolio investment, are expected to remain high amid strong demand for foreign currency liquidity in domestic market, among others, for the purpose of oil and gas imports. In line with that development, international reserves by the end of February 2013 reached USD105.2 billion, or equivalent to 5.7 months of imports and government’s external debt service, above the adequacy level of international standards.

**Inflation**

CPI inflation in February 2013 reached 0.75% (mtm) or 5.31% (yoy). Core inflation remained under control at 4.29% (yoy) in line with restrained price of global nonfood commodity and contained depreciation of the rupiah (Graph 2.8). On the other side, inflationary pressure was...
mainly derived from high volatile foods, among others, as the impact of weather disturbances and the limited supply of horticultural commodities from import. Meanwhile, administered price inflation is quite high pushed by electricity rate hike. Inflationary pressure is expected to ease as the harvest cycle and for the whole of 2013 is expected to remain subdued in the target range. Going forward, Bank Indonesia continues to strengthen coordination through inflation taskforce at national level (TPI) and regional level (TPID) to secure the supply and distribution of goods.

Core inflation remained stable, despite some secondary impact from the high rate of volatile foods inflation. In February 2013, core inflation was recorded at 0.30% (mtm) or 4.29% (yoy), relatively stable in comparison to 4.32% (yoy) recorded in the preceding month. The knock-on effects of volatile foods inflation were visible in food core inflation that mounted from 5.51% (yoy) in the previous month to 5.78% (yoy). The high food core inflation was offset by a comparative decline in non-good core inflation to 3.64% (yoy) from 3.85% (yoy) one month earlier. On the external side, the fall in gold prices and stable level of the rupiah exchange rate eased inflation in non-food tradables core inflation, thus easing the impact of high food core inflation (Graph 2.9). At the same time, inflationary pressure from the demand side remained low due to adequate levels of production to response to demand-side developments. This is reflected in the moderate level of capacity utilisation (Graph 2.10) and stable inflation in manufactured goods. Even so, inflationary pressure stemming from inflation expectations calls for careful monitoring in view of increases in administered prices, the rise in provincial minimum wage levels in 2013 and soaring property prices. A renewed onset in rising inflation expectations is reflected in retailerprice expectations in the Retail Sales Survey (Graph 2.11), while inflation expectations based on the Consensus Forecast and the Bank Indonesia Consumer Survey remain stable.

The persistently high pressure in volatile foods inflation during February 2013 is explained by disruptions to supply caused by adverse weather conditions and the impact of import restrictions on horticultural products. Volatile foods inflation reached 2.32% (mtm) or 11.02% (yoy), the highest recorded for this period in the past 10 years. In February 2013, volatile foods represented a 0.46% contribution to the CPI. Almost all of this originated from the 0.43% contribution from horticultural goods, up from 0.34% in the preceding month. Higher inflation was recorded for commodities such as garlic, shallots, chili
peppers and miscellaneous vegetables (Table 2.1). The high rate of volatile foods inflation is explained by disruptions to production and distribution in some regions following heavy rains. In addition, the imposition of import controls on horticultural products (restrictions on import gateways, import licensing regulations and temporary closing of imports for 13 commodities) also stoked inflation in this category (Graph 2.12). Nevertheless, rice prices have been kept under control through adequate supply and the continued implementation of rice market operations. During the month, global food prices maintained a stable trend, except for the sustained climb in CPO prices although this has not impacted domestic cooking oil prices.

Administered prices inflation experienced a surge on the increase in electricity billing rates in January 2013. The initial 4.3% hike in electricity billing rates, effective for electricity bills in February 2013, boosted inflation in administered prices to 0.75% (mtm) or 2.91% (yoy). This increase in electricity billing rates widened the contribution of the administered prices inflation in the CPI to 0.12%. Of this contribution, 0.08% represented the impact of the first phase of the increase in electricity billing rates (Table 2.2).

**Rupiah Exchange Rate**

Downward pressure on the rupiah eased during February 2013, with the exchange rate averaging Rp 9,680 to the US dollar (Graph 2.13). Measured point-to-point, the rupiah gained 0.35% to close at Rp 9,664 to the US dollar, compared to the previous end-month position of Rp 9,698 to the US dollar. Compared to the position at the beginning of 2013, the rupiah marked a gain of 0.31% (ytd). Market confidence has strengthened in response to policies pursued by Bank Indonesia for stabilisation of the rupiah, including a more robust forex intervention mechanism and establishment of a reference exchange rate for the rupiah on the domestic market. Added support for the stability of the rupiah came from the Rp 27.6 trillion inflows of non-resident funds placed in rupiah-denominated instruments. Looking forward, Bank Indonesia will continue to manage stability in the rupiah in line with the condition of economic fundamentals.

Aside from domestic factors, movement in the rupiah was also influenced by external factors. Fears over the outlook for United States fiscal policy and the continuation of asset buying programmes by the
The high degree of lingering uncertainty over resolution of the European crisis, the economic slowdown in the region and Japan and mounting political tensions in Italy in advance of a general election are factors that bore down on movement in the rupiah during the period under review. Nevertheless, surging inflows of offshore funds into the domestic economy during the month, most importantly on the stock exchange and for government bonds, kept the rupiah from further decline. Global risk factors have undergone a consolidation, but surged at the end of the month due to fears over the outcome of the election in Italy and looming deadline for US budget cuts. Escalation of these fears was reflected in movement in the upturn in the Volatility Index (VIX) and the World Morgan Stanley Capital International (MSCI) at the end of February 2013 (Graph 2.14).

Domestic risk indicators were relatively stable in February 2013. This is reflected by the stable movement in Indonesia’s Credit Default Swaps (CDS) and yields following the release of data on Indonesia’s economic growth in 2012, which met with positive response from market participants (Graph 2.15). The Indonesian economy has maintained above 6% growth amid the global economic slowdown. The competitiveness of investment returns on rupiah-denominated financial assets is also superior to other countries in the region. This has been a key drawcard for foreign investors, ultimately bolstering the rupiah exchange rate against further decline. Like before, returns reflected in uncovered interest parity (UIP) were higher than elsewhere in the region (Graph 2.16). Even after factoring in the risk premium for the domestic economy, reflected in the yield spread between Indonesian bonds and US T-Notes, investment in domestic assets still offers superior profits compared to other countries in the region (Graph 2.17).

Monetary, Banking, And Financial System Developments

Monetary

During February 2013, interest rates on the interbank money market were comparatively stable. Overnight interbank rates moved within a stable range at the lower limit of the interest rate corridor, averaging 4.17% (17 bps over the Deposit Facility or DF O/N rate) as in the
preceding month. This development is closely linked to the Bank Indonesia strategy for monetary operations involving frequent auctioning of Term Deposits/RR of short-term government securities (less than 1 month). The relative spread between the overnight interbank rate and the BI Rate was stable in January 2013 at 90.4%, slightly changed from 90.5% one month earlier. Interbank rates in longer tenors also moved downwards in tandem with the overnight interbank rate, accompanied by slightly increased volatility as a result of limited transaction volume (Graph 2.18).

Risk perceptions on the interbank market were largely subdued, remaining below the average threshold under normal conditions. Reflecting this was the 5 bps average spread between the high and low overnight rates in February 2013, down from 8 bps one month earlier and below the average 32 bps threshold under normal conditions. Alongside this, interbank market transaction volume was down in February 2013 compared to December 2012, consistent with the historical trend for these months in previous years.

By strengthening monetary operations, Bank Indonesia sought to curb short term inflationary pressure and support the rupiah stabilization measures. Bank Indonesia intensified its monetary strategy of more frequent auctions of Term Deposits (TDs) and reverse repos (RR) of government bonds in short tenors, less than one month. With this strategy in operation, monetary instrument rates maintained stable movement in tandem with the overnight interbank rate. Rates on monetary instruments in 7-day to 9-month tenors were largely unchanged from the rates recorded in January 2013. The renewed measures to strengthen monetary operations also resulted in a flattening yield curve on Indonesian government bonds, low volatility in the exchange rate and improved expectations of inflation. While keeping up the management of rupiah liquidity, Bank Indonesia also managed forex liquidity with the use of Forex Term Deposits (known as TD Valas) to ensure the stability of the rupiah. During February 2013, the weighted average forex TD rates for 7-day and 14-day tenors were recorded at 0.12% and 0.13%, unchanged from rates one month earlier.

Concerning bank interest rates in January 2013, deposit rates eased in contrast to relatively stable movement in loan interest rates, resulting in a modest increase in the spread between deposit and lending rates. The 1-month deposit rate fell 9 bps from the previous month to 5.49%, while the average level of lending rates
was comparatively stable at 12.06% (Graph 2.19). In response to these developments, the spread between 1-month loan and deposit rates widened slightly from the previous month to 6.57%. This also represents an enlarged spread when compared to 6.41% for the same month one year earlier. The spread at this level offers potential for easing in loan interest rates as banks improve the efficiency of their operations and channelling of bank funds.

**While loan interest rates were stable in average terms, rates for consumption credit were marked by decline.** Interest rates on consumption credit fell 18 bps to 13.4% from 13.6% one month earlier. Nevertheless, interest rates on investment credit and working capital credit were comparatively stable at 11.3% and 11.5% (Graph 2.20 and Table 2.3).

**Economic liquidity was marked by contraction.** In January 2012, M2 growth eased to 12.8% (yoy) from the previous month's level of 14.9% (yoy) (Graph 2.21). With M2 in decline, M1 growth similarly fell to 13.2% (yoy) from 16.4% (yoy) one month earlier. The slowing expansion in economic liquidity (M2 and M1) is explained by a diminishing contribution from rupiah-denominated demand deposits. A further reason for tapering in M2 was the increase in capital for commercial banks and rural banks, as reflected in the reduced contribution of Net Domestic Assets (NDA) in contrast to stable Net Claims on Central Government (NGC) in economic liquidity.
Bank Performance

Financial system stability and the banking intermediation function remained sound. Reflecting the solid performance of the banking industry performance is the high capital adequacy ratio (CAR), well above the 8% minimum, and subdued level of non-performing loans (NPLs) gross at below 5%. Credit growth reached to 23.03% (yoy) at end-January 2013, stable in comparison to the previous month. Working capital credit and investment credit maintained brisk expansion at 24.0% (yoy) and 25.5% (yoy). By comparison, consumption credit grew by 19.8% (yoy). The increased loan to deposit ratio (LDR) accompanied by a downward trend in the Base Lending Rate (BLR), points to sustained growth in banking intermediation activity alongside improvement in efficiency. Looking ahead, Bank Indonesia is confident of sustained financial system stability alongside improvement in the bank intermediation function in keeping with upbeat performance in the national economy.

### Table 2.4

<table>
<thead>
<tr>
<th>Banking Indicators</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Asset (Rp)</td>
<td>Jan</td>
<td>Feb</td>
</tr>
<tr>
<td>3,588.7</td>
<td>3,628.1</td>
<td>3,708.7</td>
</tr>
<tr>
<td>Third Party Funds (Rp)</td>
<td>2,770.6</td>
<td>2,763.9</td>
</tr>
<tr>
<td>Credit (%)</td>
<td>78.8</td>
<td>79.7</td>
</tr>
<tr>
<td>LDR (%)</td>
<td>2.4</td>
<td>2.3</td>
</tr>
<tr>
<td>NPLs Gross (%)</td>
<td>18.4</td>
<td>18.4</td>
</tr>
<tr>
<td>CAR (%)</td>
<td>6.1</td>
<td>5.4</td>
</tr>
<tr>
<td>ROA (%)</td>
<td>3.7</td>
<td>3.6</td>
</tr>
</tbody>
</table>

* without channeling

Bank lending maintained a stable rate of growth in January 2013, consistent with the continued strength of domestic demand amid the slowdown in the external sector. Credit growth, excluding channeling, was recorded at 23.03%, representing a stable level compared to 23.08% (yoy) one month earlier (Graph 2.22). The level of loan disbursements during January 2013, however, contracted by Rp 20.5 trillion from the preceding month. This is consistent with the historical trend, although the degree of contraction was less than that recorded for the same month one year previously.

The mounting contribution of working capital credit is a key factor driving credit growth. Working capital credit expanded at a more robust
24.0% (yoy) to Rp 1,292 trillion, ahead of the previous month’s expansion of 23.2% (yoy). However, growth in investment credit and consumption credit slipped to 25.5% (yoy) and 19.8% (yoy) from the previous month’s levels of 27.4% (yoy) and 20.0% (yoy) (Graph 2.23). In response, the outstanding investment credit position widened to Rp 593 trillion and consumption credit position to Rp 803 trillion. Despite this tapering growth in investment credit, productive lending (working capital and investment credit) retains a substantial role, contributing 17% to the total credit expansion recorded at 23.03% (yoy).

In analysis by sector, credit expansion was again driven by credit growth in other sectors. In January 2013, credit growth in other sectors climbed to 16.7% (yoy), ahead of 13.7% (yoy) in the previous month. Credit for the agriculture sector also recorded increased expansion at 29.2% (yoy) compared to the preceding month’s level of 29.0% (yoy). However, credit to other productive sectors, notably manufacturing, trade, construction and business services, was marked by tapering growth.

Concerning credit supply, the source of bank funding for credit, namely depositor funds, moved in tandem with credit growth. In January 2013, bank depositor funds climbed by 15.7% (yoy), relatively stable compared to the previous month’s growth of 15.8% (yoy). Deposit growth at the beginning of the year was driven mainly by expansion in savings deposits in contrast to a modest decline in demand deposits in keeping with the seasonal trend. In disaggregation by currency, deposit growth was driven by strengthening growth in foreign currency deposits. In January 2013, growth in foreign currency deposits strengthened to 21.9% (yoy) from 21.0% (yoy) one month before. Conversely, rupiah-denominated deposits increased to Rp 2,720 trillion, representing a slower rate of expansion at 14.6% (yoy) compared to 15.0% (yoy) in the preceding month.

Financial Markets

The Stock Market

During February 2013, the JCI reached an all-time high in Indonesia’s stock exchange history. Domestic stock market gains during the month were driven mainly by rising market optimism for the condition of the domestic economy, positive results reported in financial
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statements released by issuing companies and positive sentiment following results published by Fitch Ratings, the US ratings agency, in which Indonesia retains its investment grade rating. The JCI closed the month at 4,795.79 (Graph 2.24), its highest ever, placing Indonesia’s stock market performance ahead of Vietnam, Thailand and the Philippines.

**Domestic stock index gains were spurred by varied movement in sectoral indices.** Most sectoral indices booked gains in February 2013, with the notable exception of the mining sector. Leading in gains was the property sector at 14.9%, followed by the financial sector at 11.3%. In other sectors, gains were in the 0.6%-9.9% range (Graph 2.25). Keen investor interest in the property sector and earnings reported by banking stocks were key factors driving up share prices in the two sectors. In contrast, mining underwent the steepest decline of all sectors in the wake of falling prices for some global commodities.

The stable fundamentals of the domestic economy and strong corporate performance led to a sharp increase in non-resident ownership on the domestic stock market. Non-resident actors engaged in selective buying of some undervalued stocks, that is to say, companies that achieve high growth but with comparatively limited gains in share prices. In response to these developments, non-resident investors booked a net purchase of Rp 11.24 trillion in February 2012, a sharp increase compared to the January 2012 net purchase of Rp 5.70 trillion.

**Government Bonds Market**

Government bonds performed more strongly across all tenors. Overall yield on Indonesian government bonds narrowed by 8.25 bps in February 2013 to 5.35% from the January 2013 level of 5.33% (Graph 2.26). Yields on government bonds in short, medium and long tenors edged downwards by 15.28 bps, 5.65 bps and 4.07 bps. Yields on 10-year bonds were comparatively stable, edged upwards by 2.10 bps to 5.35% from the January 2013 level of 5.33%. When compared to other countries in the region, among others the Philippines, Malaysia, Thailand and Vietnam, returns on Indonesian government bonds retained considerable attraction (Graph 2.27).

Non residents expanded their holdings in all tenors. The key consideration in the rush by foreigners to buy is that domestic assets offer attractive returns on investment. Similarly, holdings of Indonesian
government bonds by banks and insurance companies were also up in February 2013. In response to these developments, non resident investors booked a net purchase of Rp 7.84 trillion in February 2013, up from the January 2013 net purchase of Rp 2.66 trillion.

### III. MONETARY POLICY RESPONSE

In the Board of Governors’ Meeting convened on March 7th, 2013, Bank Indonesia decided to hold the BI Rate at 5.75%. The current policy rate is considered consistent with inflation target range of 4.5%±1% in 2013 and 2014. Indonesia’s economy is still showing a good performance, even though there are indications of investment activity moderation since Q4 2012. Going forward, Bank Indonesia will monitor the inflation, mainly inflation that comes from volatile foods. Bank Indonesia is confident that with the strengthening of monetary and macroprudential policy mix, as well as solid coordination with the Government, will be able to achieve the inflation target and promote external balance in order to support sustainable economic growth.
### Latest Indicators

#### Financial Sector

<table>
<thead>
<tr>
<th>Interest Rate &amp; Stock</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>One month SBI Rate 1)</td>
<td>3.82</td>
<td>3.83</td>
</tr>
<tr>
<td>One month Deposit Rate 2)</td>
<td>5.97</td>
<td>5.66</td>
</tr>
<tr>
<td>Three month Deposit Rate 2)</td>
<td>6.52</td>
<td>6.31</td>
</tr>
<tr>
<td>One week JIBOR 3)</td>
<td>3.93</td>
<td>3.81</td>
</tr>
<tr>
<td>(C) Index 4)</td>
<td>3,985</td>
<td>4,122</td>
</tr>
</tbody>
</table>

#### Monetary Aggregates (billion IDR)

| Base Money | 578,964 | 683,253 |
| M1(C+D) | 586,034 | 714,258 |
| Currency (C) | 596,592 | 720,924 |
| Demand Deposit (D) | 604,979 | 749,450 |
| Broad Money (M2 = C+D+T+S) | 627,359 | 779,416 |
| One month SBI Rate 1) | 634,933 | 801,403 |
| One month Deposit Rate 2) | 657,955 | 841,721 |
| Three month Deposit Rate 2) | 638,869 | 811,603 |
| One week JIBOR 3) | 648,106 | 842,503 |
| (C) Index 4) | 647,979 | 847,024 |

#### External Sector

<table>
<thead>
<tr>
<th>Quarterly Indicator</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth (% yoy)</td>
<td>6.3</td>
</tr>
<tr>
<td>Consumption</td>
<td>5.0</td>
</tr>
<tr>
<td>Investment</td>
<td>10.0</td>
</tr>
<tr>
<td>Changes in Stocks</td>
<td>164.1</td>
</tr>
<tr>
<td>Export</td>
<td>7.9</td>
</tr>
<tr>
<td>Import</td>
<td>8.0</td>
</tr>
</tbody>
</table>

#### Prices

| CPI - monthly (%) | 0.05 |
| CPI - 1 yearly (%) | 3.56 |

#### External Sector

| IDR/USD (end of period, mid rate) | 9.085 |
| Non oilgas Export (f.o.b. million USD) 4) | 12,594 |
| Non oilgas Import (c$f, million USD) 4) | 11,894 |

#### Sources

1) end of week
2) weighted average
3) end period closing
4) closed file

Sources: Bank Indonesia, except stock market data (BAPEPAM), CPI, export/import and GDP (BPS)