

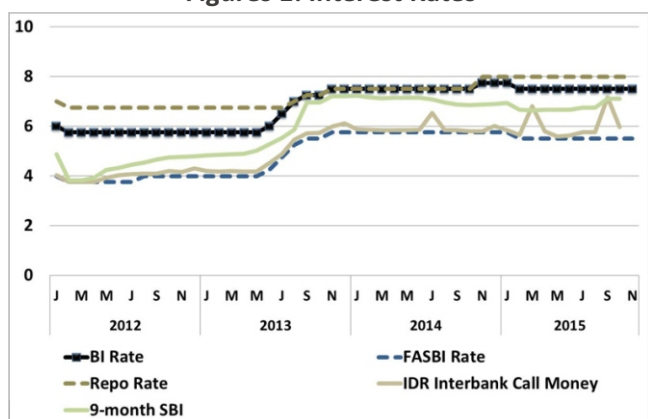
# LPEM COMMENTARY

## BI BOARD OF GOVERNORS' MEETING

### NOVEMBER 2015

In a perfect world, current macroeconomic situation would have given BI some space to ease monetary policy. Year-to-date inflation hovers at 2.16%, well below BI's lower-end target, while the trend of slowdown in growth seems to have bottomed out. This, however, is not a perfect world. We expect BI to maintain its policy rates (Repo rate at 8.00%, FASBI rate at 5.50%, and BI rate at 7.50%) in today's meeting and in December meeting despite the fact that current situation is akin to textbook case for monetary policy easing.

Figures 1: Interest Rates

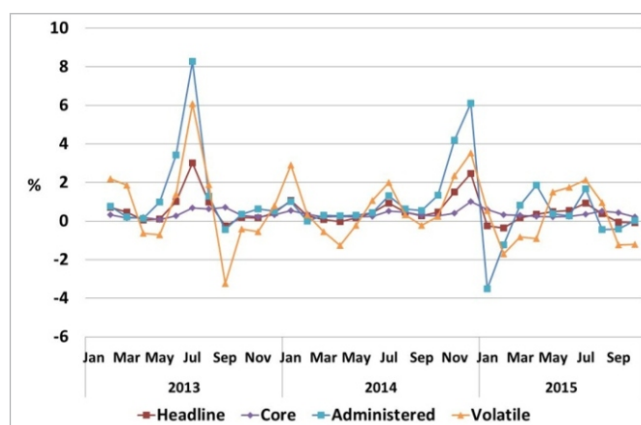


Sumber: CEIC

#### Domestic economy: Easing Is Long Overdue?

Inflation rate, which is the metric for Rupiah's stability with respect to goods and services, is under control and actually signals that policy easing is already long overdue. Headline inflation, which hovers at around 2.1% for the first 10 months in 2015, is well below BI's lower-end target of  $4\% \pm 1\%$ . Even with upward pressures for December's inflation due to holiday season, we predict inflation rate to be less than 4% for 2015. This hardly raises concern about accelerating inflation rate.

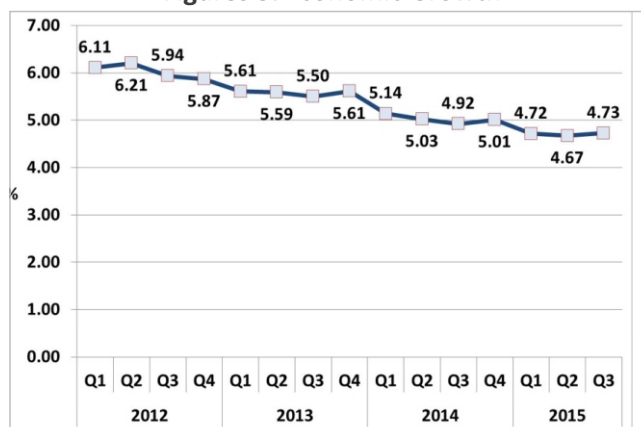
Figures 2: Inflation



Sumber: CEIC

GDP growth, which shows signs of bottoming out after long trend of persistent decline, also indicates that the economy would benefit from a monetary easing. We forecast economic growth of 4.8% in 2015Q4. The real economic activity would get better slowly in 2016 with 2016Q3 as a strong potential for a significant turning point. We foresee a 5.3% growth rate in the second semester of 2016. A monetary policy easing now could potentially drive sales of durable goods and services with a small cost of increase in inflation. Low commodity prices, especially oil, would still hold the growth rate of general prices.

Figures 3: Economic Growth



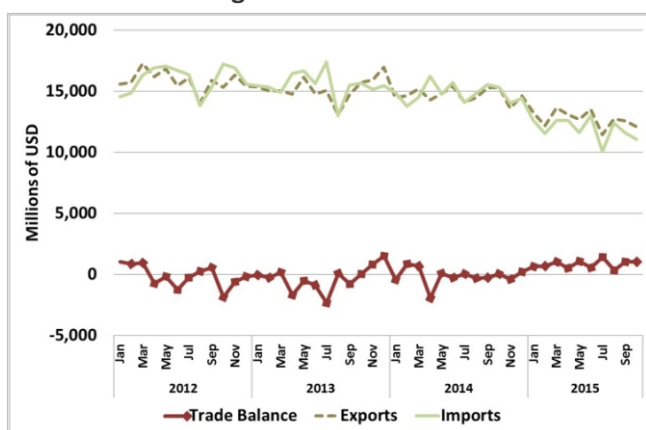
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### External Condition: Barrier to Policy Easing

Although domestic indicators suggests that BI may seriously consider monetary policy easing, external threats that may affect Rupiah stability are more than enough to force BI to hold their horses on the near-term policy stance. Looming external threats to Rupiah stability are largely caused by uncertainties regarding Fed rate hike. Despite the fact that market expectations about the near-term and the next year's rate hike seem to be in line with Fed's interest rate trajectory, a rate hike in December 2015 would trigger a foreseeable capital outflow from emerging economies, much like the period of 2015Q3. Even with much more stable weeks after the early October announcement about US labor market condition, IDR has been back at its depreciation trend. It has been weaker by against USD by 2.5% in the last 5 weeks.

To complicate the matter further are lackluster growth in China and Europe, Japan economy that has just entered technical recession again, and muted outlook of Indonesia's export commodities. Lower demand for export product from major trading partners and low commodity prices reflect Indonesia's current account fragility. With shaky current account position and increased risks of capital outflow, BI is not in the position to risk Rupiah stability. Slower-than-expected recovery and despite low inflation seem to be a price that BI is willing to pay in order to safeguard Rupiah, which currently is not in a good position. We expect continuation of a tight-bias monetary policy in today's meeting and in the near-term.

Figures 4: Trade Balance



Sumber: CEIC

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