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Macro Note

Indonesia: An Expected Decision From Bank Indonesia

Friday, 17 November 2017

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- In the second last monetary policy committee (MPC) meeting of 2017, Bank Indonesia (BI) decided to keep the BI 7-day Reverse Repo Rate at 4.25%, with the Deposit Facility rate remaining 3.5% and the Lending Facility remaining 5.0%. According to the relatively similar tone (compared to last MPC meeting) of the accompanying statement following the decision, the current level is consistent with efforts to maintain macroeconomic stability and financial system stability, as well as to boost the pace of economic recovery while taking into account the dynamics of the global especially the imminent tightening of monetary policy in the United states and the recent development of the domestic economy.

- Furthermore, the statement pointed out that the current level of interest rate cut is consistent with the inflation target levels of between 3 to 5% **but the current statement mentioned that inflation for 2017 is likely to fall in the lower end of the band, i.e. around 3.0-3.5%**. BI kept its inflation forecast within the range of 2.5 to 4.5% for next year.

- As for the current account deficit (CAD), after Q3 2017 CAD came in line with what BI has forecasted, it continued to reiterate that **CAD will remain in a manageable level of below 2% for 2017 as a whole**. Nevertheless, the current statement now reads that **BI estimated 2017's GDP growth is likely to arrive at around 5.1%, which at the lower end of the 5-5.4% forecast range of 2017, while keeping its forecast range of 5.1-5.5% in 2018.**

- Finally, BI expects third party funds' deposit to grow at 10% but **lowered its credit growth forecast to 8%**, which is again at the lower end of its previous estimate range of 8 to 10%. In light of the lower than expected credit growth for 2017 and likely in the near future, BI decided that the **Countercyclical Capital Buffer (CCB) to remain unchanged at 0% as to enhance the support for banks to enhance its intermediation role** in channeling credit to the real economy.

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