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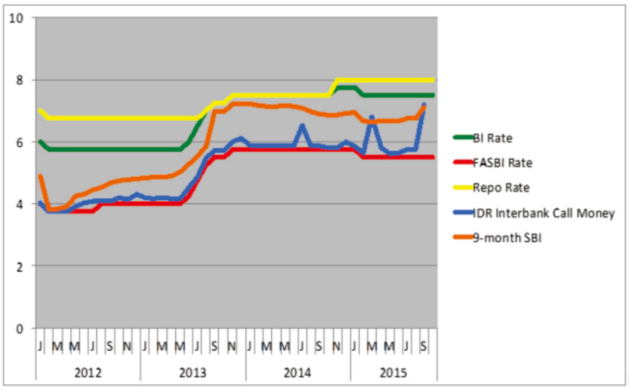
LPEM COMMENTARY
BI BOARD OF GOVERNORS' MEETING
OCTOBER 2015

Bank Indonesia's Board of Governors decided to maintain its policy rate: Repo rate at 8.00%, FASBI rate at 5.50%, and BI rate at 7.50%. We believe this is due to maintaining stability of Rupiah in the midst of global market uncertainty. On the other hand, real sector is still consolidating its activity.

Figure 1: Interest Rates

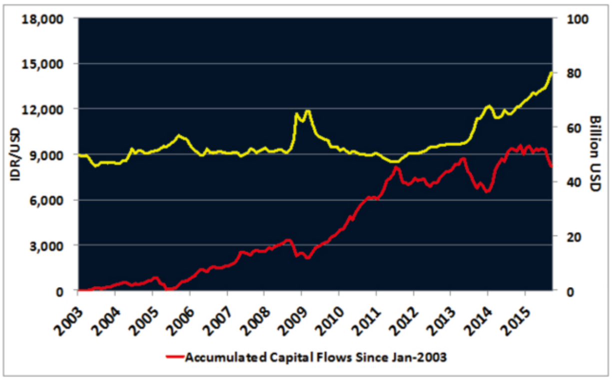


Source: CEIC

Global uncertainty. Uncertainty about the timing of the increase of the Fed funds rate is still the dominant factor. Based on CME Group 30-Day Fed fund future prices, market participants believes that The Fed will maintain its policy rate in October 2015 which is shown by implied probability of 95.4%. The probability is significantly higher for March 2016 increase. The change in the language of the FOMC meeting statement tomorrow morning (29 October at 01.00 AM Jakarta time) will be anticipated by the market in sheding more indication of December 2015 vs March 2016 lift-off. On the other hand, China's shift from short-term stimulus to five year plan is still not getting enough response from the global financial market. Its impact on reversing Chinese economic slowdown will be still questionable.

Rupiah instability. Figure 2 shows how sensitive IDR to short-term capital flow is. The red line is the accumulated capital flow (in USD) into Indonesian equity and bond markets since January 2003. Increased volatility in the global financial market has hit IDR hard. $6.5b exited Indonesia's stock and bond's market in Jul, Aug, and Sept. In October 2015, net foreign buy reached 144.5 million USD which was the reason why Rupiah appreciates.

Figure 2: Exchange Rate and Accumulated Capital Flows

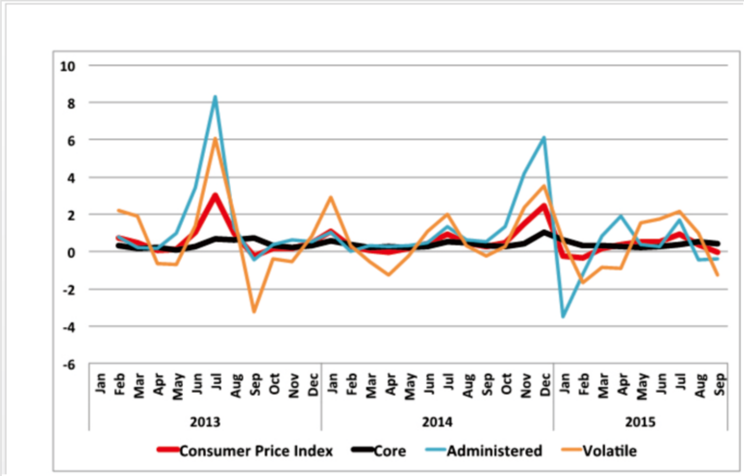


Source: CEIC

Domestic economy. We forecast 4.5% headline inflation rate for 2015, well within BI's target of 3%-5% for 2015. Monthly inflation rate was 0.0% for CPI in September. The administered price inflation was -0.4% due to falling oil price. While the volatile price inflation was -1.3%.

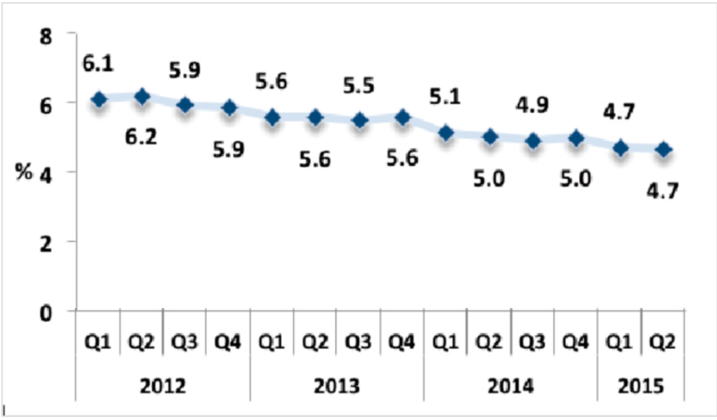
We forecast a bottoming out of Indonesia's GDP slowing down by the end of this year. This is not the appropriate time for Bank Indonesia to start loosening its policy rate.

Figure 3: Inflation



Source: CEIC

Figure 4: GDP Growth



Source: CEIC

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