

Money Development

DANAREKSA RESEARCH INSTITUTE

May 7, 2018

Money Developments: Weak Growth to Continue

Money supply continued to grow at a slow pace in March. Broad money or M2 only grew by 7.5 percent YoY in March, or slower than February's growth pace of 8.3 percent YoY. The slow pace of growth was seen in all the money supply components.

Deposits posted weak growth in March at only 7.3 percent year on year, the lowest growth since October 2016. Credit growth reached 8.5 percent - down from last year's growth pace of 9.2 percent. Consumer loans remained as the main driver of credit growth, up by 11.4 percent.

In April, we expect faster credit growth on the back of brisker economic activity. Nonetheless, some volatility created by external factors may disrupt lending. Deposits, meanwhile, are expected to grow only moderately given lower rates and heightened risks that may affect the asset allocation preferences of fund holders.

Money Supply: Slowing Further

Money supply continued to grow at a slow pace in March. Broad money or M2 only grew by 7.5 percent YoY in March, or slower than February's growth pace of 8.3 percent YoY. The slow pace of growth was seen in all the money supply components. The growth rate of quasi money slowed from 6.7 percent YoY in February to 6.2 percent YoY in March. Furthermore, narrow money or M1 grew at a slower pace in March of only 11.9 percent YoY, or less than the 13.0 percent YoY growth pace in February. The growth rate in securities other than shares also dropped to negative 11.9 percent YoY in March, or down from 19.4 percent YoY in February.

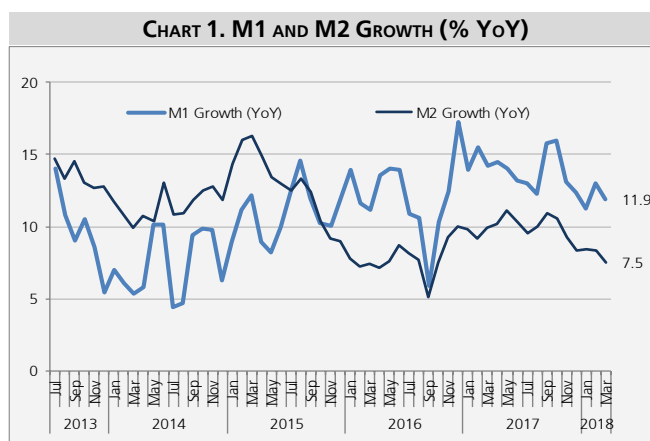
Looking at the factors which impact M2 growth, the slower growth of M2 in March mainly reflects the slowdown in net foreign assets due to a decline in foreign exchange reserves as the rupiah depreciated in March. Furthermore, the growth of government accounts in BI and the banking system climbed from 2.9 percent YoY in February to 11.7 percent YoY in March, while government bond issuances fell from IDR 106.90 trillion in February to IDR66.83 trillion in March. The increase in the growth of government accounts in BI and the banking system reflects a decline in government expenditures.

In April, money supply is expected to grow at a slower pace. Global uncertainties – especially in the US – remain high, possibly leading to rupiah volatility and further capital outflows. For the full year of 2018, however, we estimate a faster pace of economic growth of 5.20 – 5.30 percent. As such, we still expect brisker money supply growth this year.

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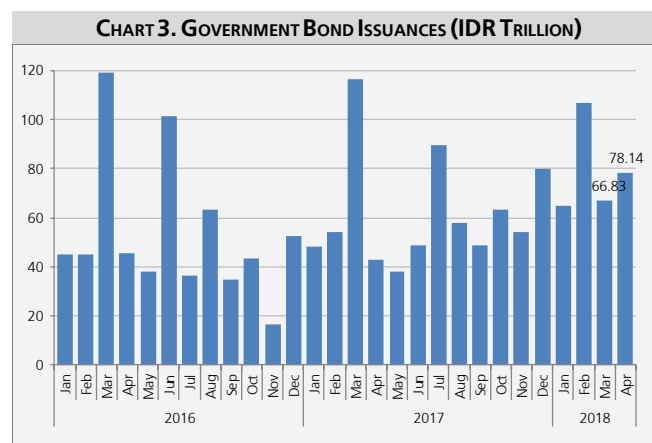
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Source: Bank Indonesia



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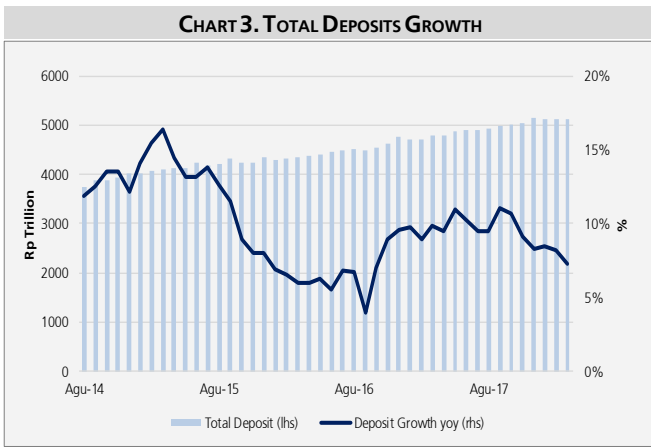


Source: Indonesia Ministry of Finance

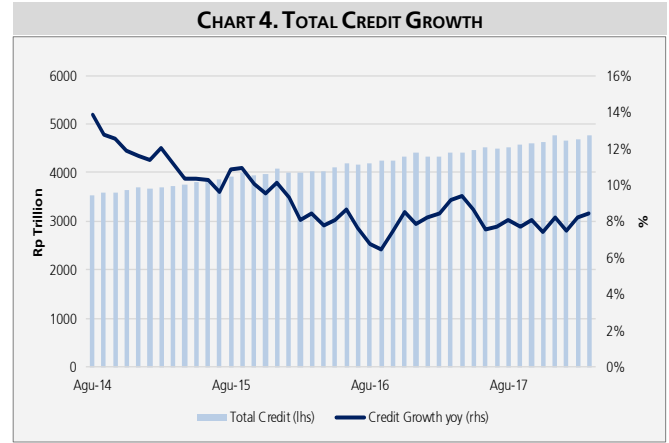
Deposits and Credit Growth: Downturn in Deposits Growth

Deposits posted weak growth in March at only 7.3 percent year on year, the lowest growth since October 2016. The main shock came from a slump in demand deposits whose growth dropped from 9.4 percent in February to 6.8 percent. Credit growth, meanwhile, reached 8.5 percent - down from last year's growth pace of 9.2 percent. Consumer loans remained as the main driver of credit growth, up by 11.4 percent. Investment loans growth edged up to 5.4 percent from 4.7 percent in the previous month. Lastly, the growth in working capital loans – which account for the biggest portion of the loans segment - slowed down slightly to 8.4 percent from 8.5 percent in the previous month.

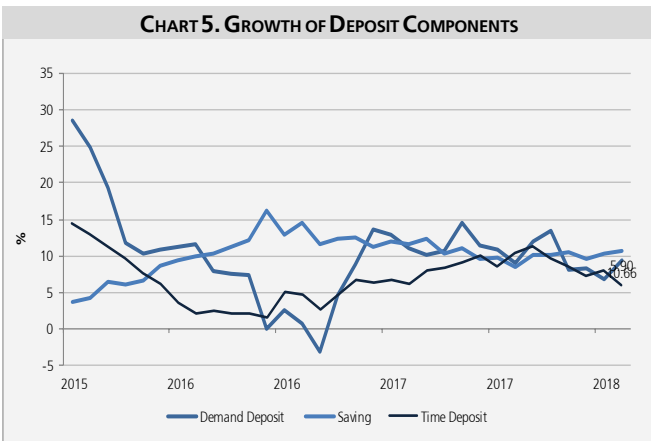
In April, we expect faster credit growth on the back of brisker economic activity. Nonetheless, some volatility created by external factors may disrupt lending. Deposits, meanwhile, are expected to grow moderately given lower rates and heightened risks that may affect the asset allocation preferences of fund holders. In 2018, banks are expected to lend more aggressively, supported by easing NPLs and BI's loose macro-prudential policy as well as faster economic growth (estimated to reach 5.3 – 5.4 percent) and benign inflation which has declined to its lowest rate in the past three years. All in all, we expect credit to grow in the range of 9.5 - 10 percent in 2018.



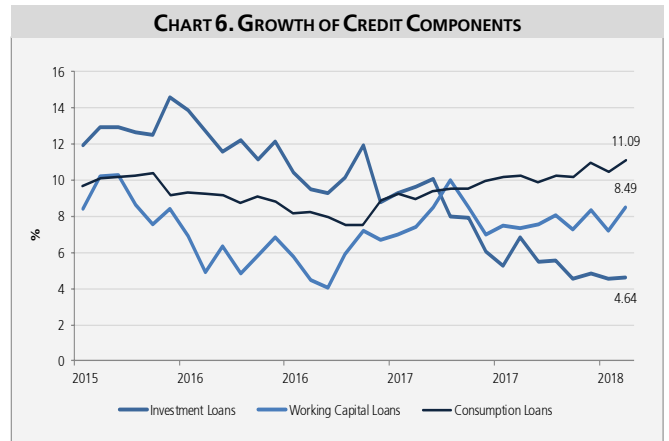
Source: Bank Indonesia



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Source: Bank Indonesia

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