

Money Development

DANAREKSA RESEARCH INSTITUTE

November 6, 2018

Money Developments: Back on Track

Money supply grew at a faster pace in September than it did in August. Broad money or M2 grew by 6.7 percent YoY in September, or higher than its growth pace of 5.9 percent YoY in August. The faster pace of M2 growth was mainly due to the faster growth of quasi money – which is 74.5 percent of the total money supply. The faster growth of M2 in September mainly reflects an increase in government expenditures.

Deposits grew slightly more briskly at 6.5 percent YoY in September after growing by 6.3 percent in the previous month. Credit growth, meanwhile, has been maintained above 10 percent YoY in the last three months. In particular, working capital loans continued to post high growth. They grew by 12.4 percent YoY. The other credit components also showed brisk growth: investment loans grew by 11.3 percent while consumer loans grew by 11.5 percent.

Money Supply: Growing at a Faster Pace

Money supply grew at a faster pace in September than it did in August. Broad money or M2 grew by 6.7 percent YoY in September, or higher than its growth pace of 5.9 percent YoY in August. The faster pace of M2 growth was mainly due to the faster growth of quasi money – which is 74.5 percent of the total money supply. The growth of quasi money accelerated from 5.2 percent YoY in August to 6.3 percent YoY in September. By contrast, M1 (narrow money) grew at a slower pace in September than it did in August (8.2 percent YoY vs. 8.6 percent YoY), holding back the M2 acceleration.

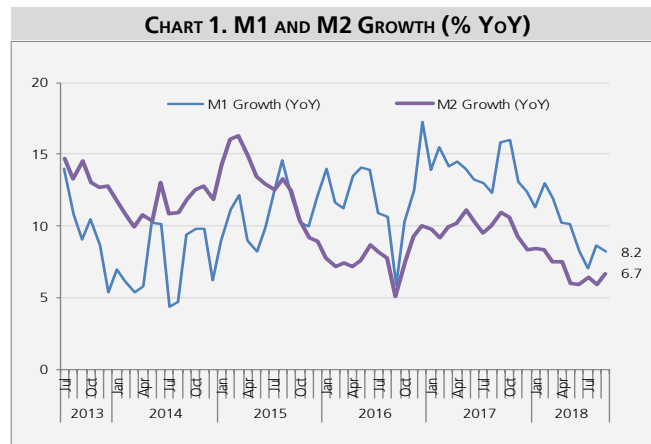
Looking at the factors which impacted M2 growth, the faster growth of M2 in September mainly reflects an increase in government expenditures, as reflected in the slower growth of government accounts in BI and the banking system, which dropped to 11.5 percent YoY in September, after growing 19.7 percent YoY in August. Meanwhile, government bond issuances increased from IDR 35.44 trillion in August to IDR 47.42 trillion in September. Furthermore, net foreign assets growth contracted more sharply in September (-3.9 percent YoY) compared to -1.7 percent YoY in August, stemming from a further slowdown in the growth of foreign inflows which was inline with a fall in foreign reserves in September. By comparison, foreign liabilities increased due to an increase in the banking sector's foreign liabilities.

In October, money supply growth is expected to grow at a similar pace. Adopting a tight money policy stance, BI makes adjustments for rising global volatility. In the October BI governors' meeting, BI decided to hold the benchmark rate unchanged, with inflation low and manageable.

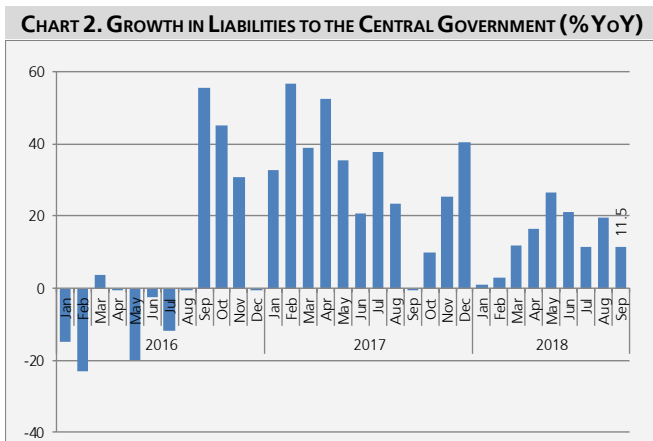
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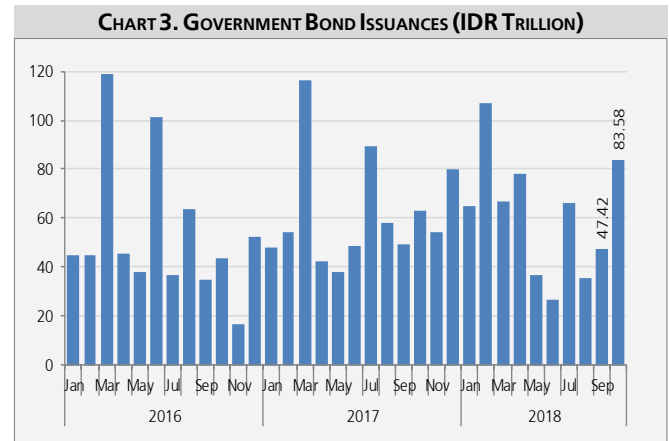
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Source: Bank Indonesia



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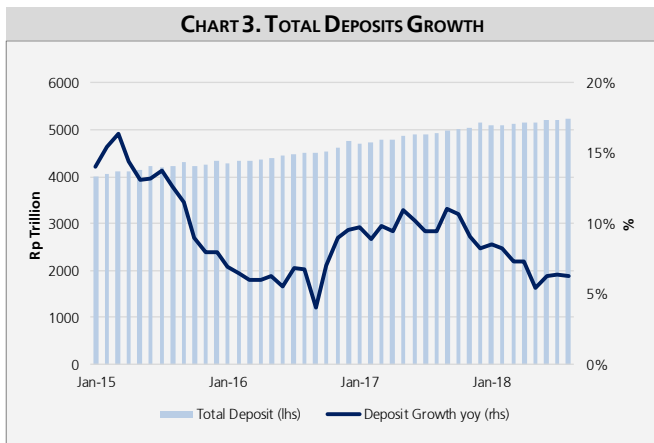
Source: Indonesia Ministry of Finance

Deposits and Credit Growth: Credit Growth is in an Upward Trend

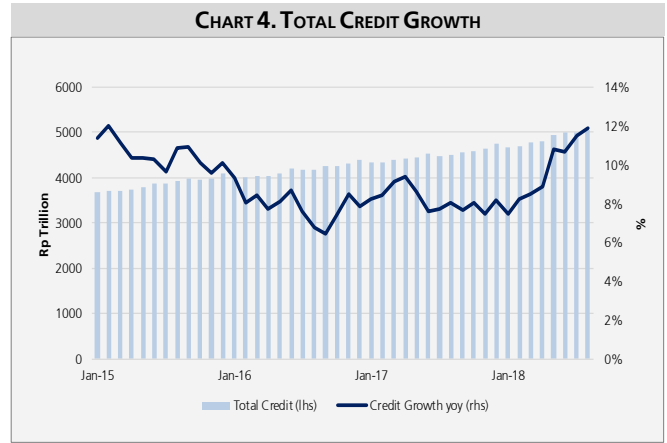
Deposits grew slightly more briskly at 6.5 percent YoY in September after growing by 6.3 percent in the previous month. Most notably, time deposits, the biggest component of deposits, only grew by 3.0 percent. Time deposits growth has been in a downtrend since September 2017, falling below 5 percent in May 2018. Savings also recorded slower growth. They grew by 9.5 percent in September – or less than the 11.1 percent growth pace in the previous month. Demand deposits, meanwhile, grew briskly by 11.1 percent. Hikes in the benchmark rate do not necessarily boost time deposits growth. The flattish growth in deposits overall suggests that BI’s dual intervention policy did not bring about any significant reduction in liquidity.

Credit growth, meanwhile, has been maintained above 10 percent YoY in the last three months. In particular, working capital loans continued to post high growth. They grew by 12.4 percent YoY. The other credit components also showed brisk growth: investment loans grew by 11.3 percent while consumer loans grew by 11.5 percent. In terms of credit quality, the gross NPLs ratio stayed at 2.6 percent in September (unchanged from August) according to LPS data.

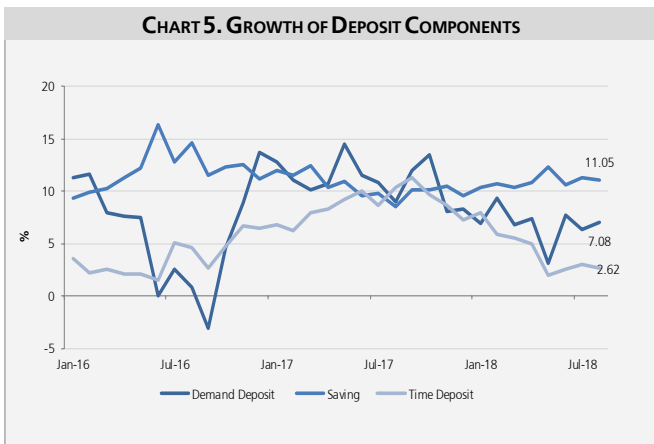
In October, we expect deposits to grow more briskly given the benchmark rate hikes, although heightened risks may affect the asset allocation preferences of fund holders. Credit growth is projected to be stable and in double-digits. Even though the benchmark rate hikes may constrain credit growth, the expectation of brisker economic growth (estimated to reach 5.2percent) and benign inflation - which has declined to its lowest level in the past three years - might help credit to grow in the range of 10 – 11.5 percent in 2018.



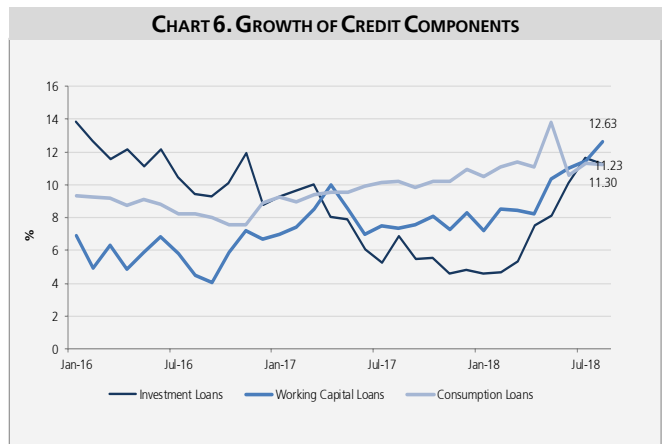
Source: Bank Indonesia



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