

Money Development

DANAREKSA RESEARCH INSTITUTE

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MONEY DEVELOPMENTS: Bouncing back

After showing slower growth in two straight months, broad money or M2 bounced back and expanded at a faster pace in August of 10.0 percent (YoY) compared to July's growth of 9.5 percent (YoY). Quasi money grew by 9.1 percent (YoY) in August, or faster than the 8.2 percent (YoY) growth in July. By contrast, narrow money or M1 grew at a slower pace of 12.3 percent (YoY) in August vs. 13.0 percent (YoY) in July.

As expected, deposits grew moderately by 9.42 percent YoY in August, or little changed from the growth in the previous month of 9.47 percent. Credit growth, meanwhile, remained on its upward trend. It grew by 8 percent YoY in August, or slightly higher than 7.9 percent in the previous month. Consumer loans continued to grow at a brisk pace of 10.21 percent in August (vs. 10.14 percent in July) in line with the improvement in our Consumer Confidence Index (CCI). At the same time, investment loans also grew at a faster pace (+6.85 percent). Nonetheless, the growth of working capital loans slowed to 7.35 percent from 7.51 percent.

Money Supply: Faster Growth

After showing slower growth in two straight months, broad money or M2 bounced back and expanded at a faster pace in August of 10.0 percent (YoY) compared to July's growth of 9.5 percent (YoY).

By component, the faster pace of M2 growth in August mainly owed to an acceleration in the growth of quasi money. Quasi money - which is 75.2 percent of the total money supply - grew by 9.1 percent (YoY) in August, or faster than the 8.2 percent (YoY) growth in July. By contrast, narrow money or M1 grew at a slower pace of 12.3 percent (YoY) in August vs. 13.0 percent (YoY) in July.

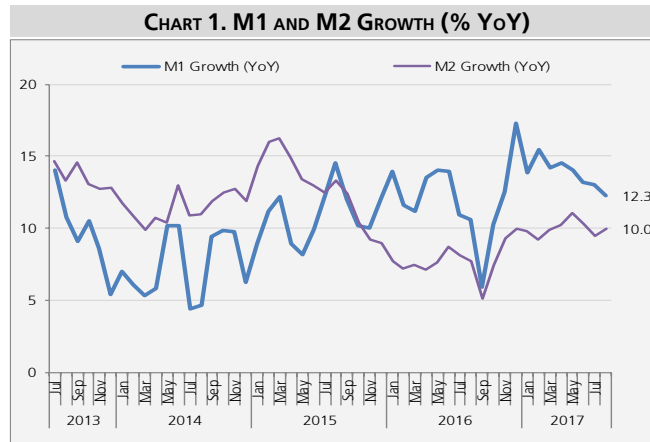
Looking at the factors which impact M2 growth, the acceleration of M2 in August was mainly due to the slower growth of government accounts in BI and the banking system (down from 37.7 percent YoY growth in July to 23.4 percent YoY growth in August). In line with this, government bond issuances also declined - down from IDR 89.37 trillion in July to IDR 57.83 trillion in August.

In September, money supply is expected to grow at a faster pace supported by higher government expenditures. The move by the central bank to cut its benchmark 7-Day RR rate in September should also give a boost to economic activities. As a result, money supply should also increase.

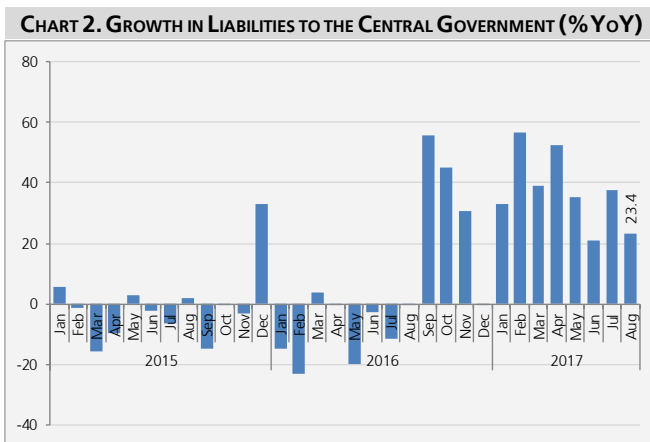
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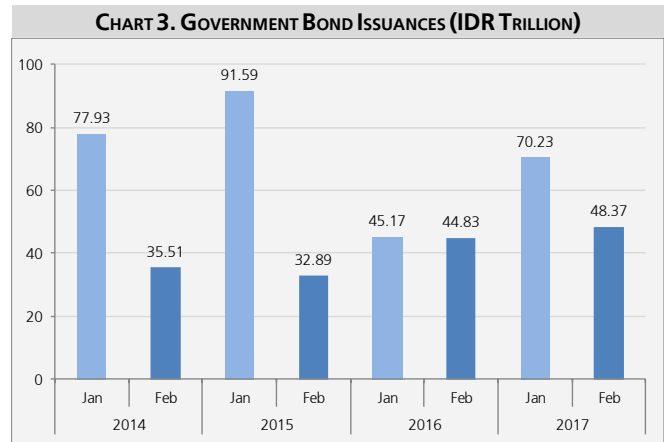
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Source: Bank Indonesia



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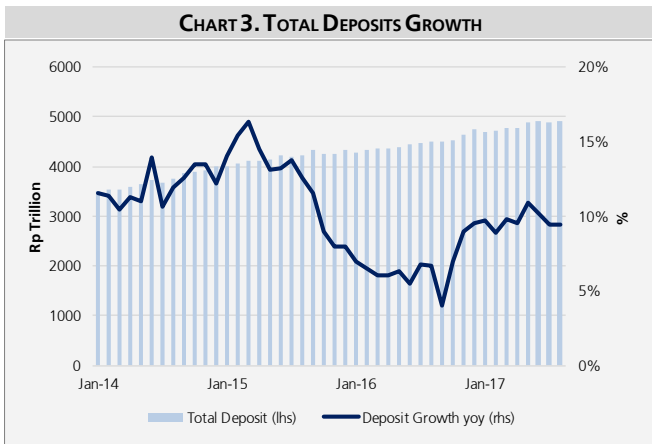


Source: Indonesia Ministry of Finance

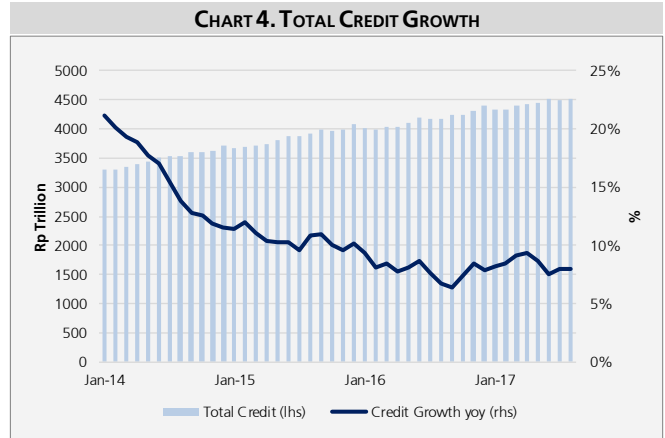
Deposits and Credit Growth: Consumer Loans Continued Their Upward Trend

As expected, deposits grew moderately by 9.42 percent YoY in August, or little changed from the growth in the previous month of 9.47 percent. From its components, demand deposits and savings recorded weaker growth of 8.95 percent and 8.48 percent, respectively. By contrast, time deposits grew more briskly by 10.30 percent. In September, deposits growth is expected to be flat since economic indicators are not expected to move much. In September, time deposit will grow slower due to benchmark rate cut and LPS rate cut. However, better economic indicator in Q3 will bring out positive effect to demand deposit and saving.

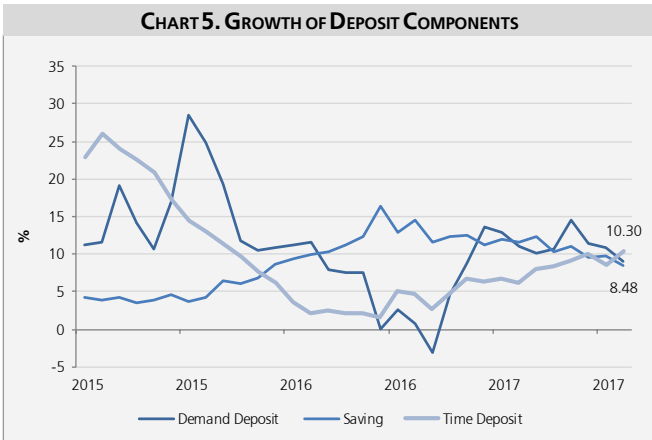
Credit growth, meanwhile, remained on its upward trend. It grew by 8 percent YoY in August, or slightly higher than 7.9 percent in the previous month. Consumer loans continued to grow at a brisk pace of 10.21 percent in August (vs. 10.14 percent in July) in line with the improvement in our Consumer Confidence Index (CCI). At the same time, investment loans also grew at a faster pace (+6.85 percent). Nonetheless, the growth of working capital loans slowed to 7.35 percent from 7.51 percent. Looking ahead, the tick-up in NPLs in August to 3.05 percent will put some pressure on banks to expand credit. Nevertheless, the 50 bps benchmark rate cuts followed by the 25 bps reduction in the LPS rate might ultimately lead to lower credit rates. Consumption should benefit from stronger consumer confidence as indicated in the increase in our CCI in September. Against this backdrop, September credit growth is expected to increase slightly with the full year credit growth reaching 9 percent.



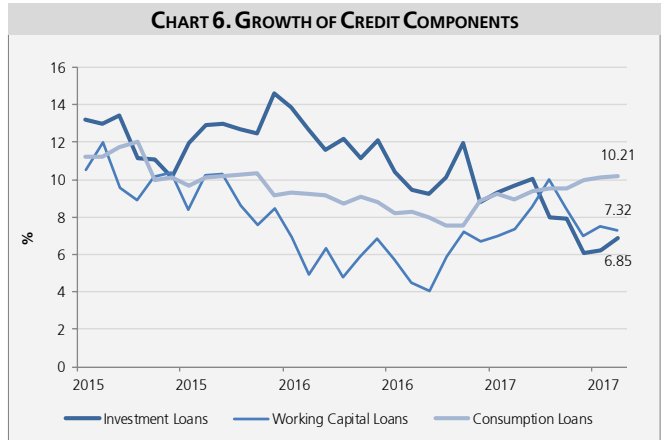
Source: Bank Indonesia



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