Bulletin of Monetary Economics and Banking

Volume 16 | Number 1 Article 5

7-31-2013

QUARTERLY ANALYSIS: THE DYNAMICS OF MONETARY, BANKING AND PAYMENT SYSTEM, QUARTERLY II, 2013

Bank Indonesia Quarterly Report Team
Bank Indonesia - Indonesia

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The national economy showed lower growth than the first quarter of 2013 due to the impact of the global economic slowdown and rising inflation in the country. After registering a growth of 6.0% (yoy) in the first quarter of 2013, Indonesia's economic growth slowed to 5.8% (yoy) in the second quarter of 2013. Despite positive growth, exports are still not strong enough to support economic growth as a result of the weakening global economic demand. Exports are not strong and the weakening purchasing power due to inflation has increasing influence to slowdown household consumption as well as non-construction investment.

On the external side, the pressure on the national economy continues. Overall, Indonesia's balance of payments (BOP) in the second quarter 2013 experienced lower a deficit than the previous quarter. The BOP sustained significant surplus on the capital and financial account (CFA) among others things, due to increased direct capital inflows (DCI) and foreign currency government bond issuance.

On the other hand, the deficit in the Current Account (CA) recorded a relatively high increase, primarily driven by a continued decline in exports due to the global economic slowdown and a sharp drop in global commodity prices, in the middle of the high non-oil imports of both oil and gas and in accordance with the seasonal pattern. The deficit in the CA was also affected by large interest payments enough in the second quarter of 2013. Foreign exchange reserves at the end of June 2013 recorded 98.1 billion U.S. dollars, equivalent to 5.4 months of imports and servicing of the official external debt, well above international standards. Looking ahead, with the tightening of monetary and macroprudential policy mix adopted by Bank Indonesia, and the measures of coordination with government policy, the balance of payments is projected to rebound in line with the CA deficit slowdown in domestic demand and adjustments in the exchange rate.

The rupiah in the second quarter of 2013 depreciated in accordance with its fundamental value. In point to point, the exchange rate depreciated by 2.09% (qtq) to Rp9.925 per U.S. dollar, or on average fell 1.03% (qtq) to Rp9.781 per U.S. dollar. Also, as with weakening currencies of countries in Asia, the depreciation of the rupiah primarily affected non-resident ownership in domestic financial assets that triggered a sentiment of reduction (tapering off) of monetary stimulus by the Fed. These developments resulted in the weakening of the Rupiah in line with the trends of currency movements in the countries of the region. Bank Indonesia views that the exchange rate at the moment describes the condition of Indonesia's economic fundamentals.

CPI inflation in the second quarter of 2013 was marked by a significant rise in inflation in June, after two months of prior deflation. CPI inflation in June 2013 recorded an increased high of 1.03% (mtm), and from April and May 2013, deflation was 0.10% and 0.03% (mtm), respectively. As a result of this increase, on an annual basis, the CPI inflation was still high at 5.90% (yoy), despite a quarterly mark of 0.90% (qtq) which was lower than the previous quarter of 2.43% (qtq). High inflation was mainly driven by rising fuel prices subsidized at Rp2.000/ liter for premium fuel and Rp1.000/liter for diesel, which was announced by the government on June 21, 2013, and was effective as of June 22, 2013. Meanwhile, core inflation remained under control at a low enough level. However, as Bank Indonesia predicted, the effect of the fuel price hike on inflation was temporary, about three months, with a peak in July 2013, then declined in August 2013 and returned to the normal pattern in September 2013.

Financial system stability was also maintained and supported the stability of the banking industry. In the midst of a slowdown in bank credit trends, the resilience of the banking industry remained solid as reflected in the capital adequacy ratio (CAR) which was high at 18%, well above the minimum requirement of 8%, and the ratio of non-performing loans (NPL) with a gross low at 1.9% in June 2013. Overall liquidity conditions were still maintained, although the Loan-to-Deposit Ratio (LDR) was relatively high at 87.2% in June 2013. Meanwhile, credit slowed from 21.0% (yoy) in May 2013 to 20.6% (yoy) in June 2013, in line with weakening economic growth. Bank Indonesia kept close watch on credit growth which was still quite high at some banks and a number of economic sectors, particular those that have a high import content, which was feared to disrupt the performance of the banking industry and financial system stability.

In the second quarter of 2013, the transaction payment system progressed well. There was an increase both in terms of volume and value of transactions compared to the previous quarter. The volume of transactions in the second quarter of 2013 increased by 99.59 million transactions (11.06%) to 999.91 million transactions, from 900.31 million in the previous quarter transactions. As for the value, transactions increased by Rp2.80 trillion (13.82%) to Rp23.024, 54 billion, from the previous quarter of Rp20.228,43 trillion. The increase in the volume of transactions was mainly derived from transactions using the Card Payment (APMK) i.e. ATM card and / or debit cards. This increase shows the growing trend of economic activity and public use of non-cash payment instruments. Meanwhile, the increase in the value of the transaction in the second quarter of 2013 was primarily derived from transactions-i.e., Bank Indonesia Real Time Gross Settlement (BI - RTGS), namely public transactions, monetary management, and interbank money market (interbank).