Economics

DBS Flash

Indonesia: Monetary and macropru for growth

Economics/Strategy/Indonesia/Monetary/Rates

Group Research

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- *Slower growth and stable Rupiah gave room for BI to deliver another policy rate cut by 25bps to 5.25% last week.*
- *BI expanded the definition of banks' source of fund in the Macroprudential Intermediation (MIR) guidelines to give banks wider room for credit expansion.*
- *BI also loosened Loan-to-Value ratio for both property and automotive loan to support lending growth.*
- *We see risks are tilted towards of more easing if economic activity does not pick up next year.*
- ***Implication for forecast**: We now expect policy rate to be 5.0% at end-19 with another 25bps cut likely in 4Q19*
- ***Implication for investors**: Dovish BI bets are likely to benefit the belly of the Indo govvies curve.*

Policy rate cut and macro prudential easing

Bank Indonesia cut rates for a third consecutive time last week to 5.25% (Deposit Facility to 4.5% and Lending Facility to 6.0%), resulting in a total of 75bps cut this year. BI also announced macro prudential easing by expanding the scope of banks' source of fund in the Macroprudential Intermediation Ratio (MIR) and loosened the loan-to-value (LTV) and financing-to-value (FTV) for property and automotive loans (effective on December 2nd).

The deceleration in economic growth momentum and weak monetary easing passthrough to the private sector is worrying. While we pencil in another cut in 4Q by 25bps, we think that risks are tilted towards even more easing if economic activity does not pick up early next year.

Bank Indonesia expanded the definition of banks' source of fund in the Macroprudential Intermediation Ratio (MIR) and Shariah MIR to include loan/financing component received by banks which will give banks wider room to extend credits. Currently, BI requires banks to keep the MIR on 84%-94% range, while penalizing banks outside of this range with higher reserve, to support lending growth.

The new definition of bank's source of fund will include loan/financing with at least one-year maturity, excluding interbank loan. According to BI, this new definition would add an additional IDR128tn liquidity available for loans.

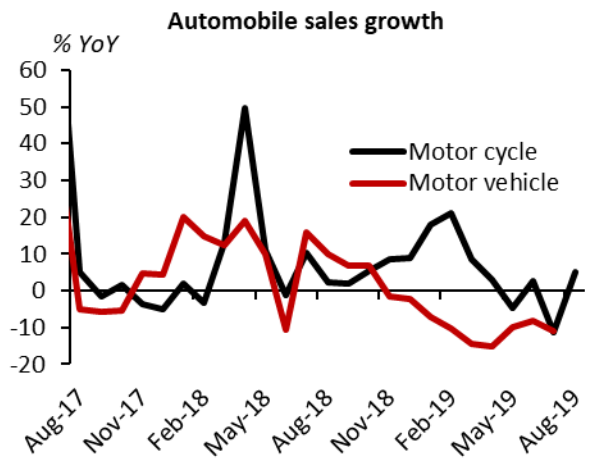
The new formula (including loan received in the denominator:

$$\frac{Loans + Securities\ Owned}{Deposits + Securities\ Issued + Loan\ Received}$$

In addition to change in MIR, BI also announced relaxation on loan-to-value (LTV) for property financing by 5% and motor vehicle financing-to-value (FTV) ratio by 5%-10%. Additional incentive of 5% is also given for both property and green automotive financing. See Table 1-3 for details on the changes on LTV and Table 4-6 for FTV.

LTV relaxation would be more effective for smaller houses or first home buyers and less for second home buyer or larger-sized house (>70m^2). Yet, the extent to which this LTV relaxation would increase lending growth would also be constrained by weaker domestic demand environment.

We think FTV relaxation is timely to support automobile sales which has decelerated since end of last year. Motor vehicle, in particular has recorded negative sales growth since Nov18 while motor cycle since May19.



Source: CEIC

Table 1-6: Macroprudential easing

Table 1. Current LTV/FTV Ratio

Category	Meets NPL/NPL Criteria				Does Not Meet NPL/NPL Criteria					
	Property Loan & Property Financing based on Akad Murabahah & Akad Istishna		PP bdsr akad MMQ & akad IMBT		Property Financing based on Akad Murabahah & Akad istishna			Property Financing based on akad MMQ & akad IMBT		
	1	≥2	1	≥2	1	2	≥3	1	2	≥3
Landed House										
Type >70	-	80%	-	85%	80%	70%	60%	85%	75%	65%
Type >21 - 70	-	85%	-	90%		80%	70%	-	80%	70%
Type ≤21	-	-	-	-		-	-	-	-	-
Apartment										
Type >70	-	80%	-	85%	80%	70%	60%	85%	75%	65%
Type >21 - 70	-	85%	-	85%	90%	80%	70%	90%	80%	70%
Type ≤21	-	85%	-	85%		80%	70%	-	80%	70%
Office House	-	85%	-	85%		80%	70%	-	80%	70%

Table 2. New LTV/FTV Ratio

Category	Meets NPL/NPL Criteria				Does Not Meet NPL/NPL Criteria					
	Property Loan & Property Financing based on Akad Murabahah & Akad Istishna		Property Financing based on akad MMQ & akad IMBT		Property Financing based on Akad Murabahah & Akad istishna			Property Financing based on akad MMQ & akad IMBT		
	1	≥2	1	≥2	1	2	≥3	1	2	≥3
Landed House										
Type >70	-	85%	-	9%	85%	75%	65%	90%	80%	70%
Type >21 - 70	-	90%	-	95%		85%	75%	-	85%	75%
Type ≤21	-	-	-	-		-	-	-	-	-
Apartment										
Type >70	-	85%	-	90%	85%	75%	65%	90%	80%	70%
Type >21 - 70	-	90%	-	90%	95%	85%	75%	95%	85%	75%
Type ≤21	-	90%	-	90%		85%	75%	-	85%	75%
Office House	-	90%	-	90%		85%	75%	-	85%	75%

Table 3. LTV/FTV Ratio for Green Property

Category	Meets NPL/NPL Criteria				Does Not Meet NPL/NPL Criteria					
	Property Loan & Property Financing based on Akad Murabahah & Akad Istishna		Property Financing based on akad MMQ & akad IMBT		Property Financing based on Akad Murabahah & Akad istishna			Property Financing based on akad MMQ & akad IMBT		
	1	≥2	1	≥2	1	2	≥3	1	2	≥3
Landed House										
Type >70	-	90%	-	95%	90%	80%	70%	90%	80%	70%
Type >21 - 70	-	95%	-	-		90%	80%	-	85%	75%
Type ≤21	-	-	-	-		-	-	-	-	-
Apartment										
Type >70	-	90%	-	95%	90%	80%	70%	95%	85%	75%
Type >21 - 70	-	95%	-	95%	-	90%	80%	-	90%	80%
Type ≤21	-	95%	-	95%	-	90%	80%	-	90%	80%
Office House	-	95%	-	95%	-	90%	80%	-	90%	80%

Table 4. Current Down Payment on Automotive Loan/Financing

Category	Current automotive down payment	
	Meets NPL ? NPF Criteria	Does Not Meets NPL ? NPF Criteria
Two Wheeled	20%	25%
Three Wheeled or more (Non Productive)	25%	30%
Three Wheeled or more (Productive)	20%	

Table 5. New Down Payment on Automotive Loan/Financing

Category	New automotive down pyament	
	Meets NPL ? NPF Criteria	Does Not Meets NPL ? NPF Criteria
Two Wheeled	15%	20%
Three Wheeled or more (Non Productive)	15%	25%
Three Wheeled or more (Productive)	10%	15%

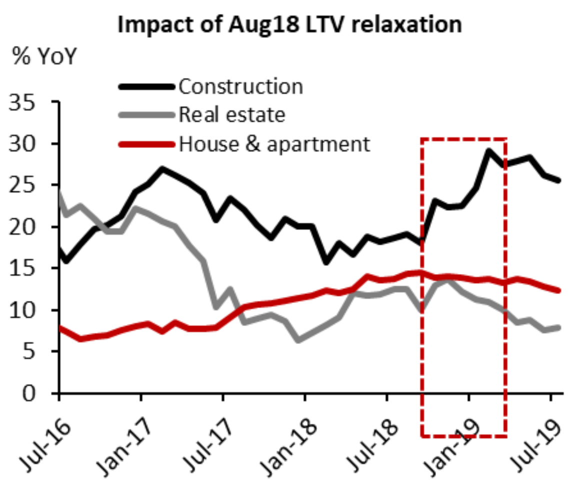
Table 6. Current Down Payment on Green Automotive Loan/Financing

Category	Down payment on Automotive loan financing	
	Meets NPL ? NPF Criteria	Does Not Meets NPL ? NPF Criteria
Two Wheeled	10%	15%
Three Wheeled or more (Non Productive)	10%	20%
Three Wheeled or more (Productive)	5%	10%

Impact of previous LTV easing

To gauge the impact of the current LTV relaxation on lending growth, we look at the past round of LTV easing in Aug18. During this period, first home buyer's (for larger-sized house >70m^2) LTV was relaxed from 15% down payment to zero. For apartment, from 15% for larger (>70m^2) and 10% and mid-size apartment (22-70m^2) to zero. In addition, new regulation allows consumer to take up to five mortgages to encourage investment in the property sectors.

As we can see from the chart below, housing mortgage and real estate loan stayed relatively flat after the LTV relaxation during this period. Construction growth, mainly linked to infrastructure development, was not impacted by LTV



Source: CEIC

Softer growth momentum in 2H19

GDP growth is likely to soften in 2H19 compared to 1H19 (DBSf growth 5.0% in 2019). Several real sector indicators (cement sales, PMI, credit growth, negative growth capital and raw material imports) pointing to higher chance of growth deceleration in 2H19. The impact of monetary easing, including previous 50bps policy rate cut earlier this year, has not been completely reflected in the money supply or credit growth.

We see further risk to growth is tilted to the downside, which could result in more monetary and macroprudential easing further to 2020.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).