

Series of Stimulus Measures Taken in Indonesia While Inflation Staying High

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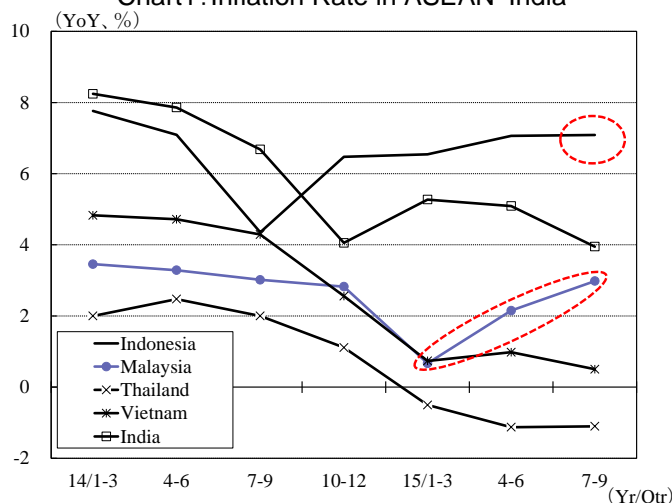
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In Asia, most of economies have been experiencing a double-digit decrease in exports compared to the previous year, which is weighing on their economic growth. The decline of exports largely reflects the lowering resource prices as well as weak external demand. The lowering resource prices, however, also have an effect to give the countries a room to ease monetary policies under a restrained inflation. Actually in the ASEAN and India, inflation is generally suppressed and especially in India, which has suffered from high inflation for many years, controlled inflation through declining resource prices has created a room for monetary easing and the central bank lowered its policy rate on September 29 for the fourth cut in the year.

On the other hand, in Indonesia and Malaysia, inflation rate has been either staying high or even accelerating despite the continued low resource prices (Chart 1). In Indonesia, which has unstable fundamentals like twin deficits on current account and fiscal balance and has a tendency to get a rising inflation pressure through depreciation of the currency, reduction of fuel subsidies implemented last year to reduce the budget deficits and following pass-through of increased fuel cost to transportation cost have kept the inflation rate high. Also in Malaysia, in an environment where the inflation pressure easily tends to rise reflecting the introduction of GST in April, uncertainty on the political mess over the management of investment corporations and others have caused a depreciation of the currency, pushing up the inflation higher.

Against the background of limited room for monetary easing by high and accelerating inflation, the governments of Indonesia and Malaysia have one after another announced stimulus packages to support the economy (Table 1). Measures in Malaysia included stock investment through the government affiliated investment corporations (20bn Ringgit, 1.8% of GDP) and additional funding to support financing of SMEs and households, and the government declared it would take additional measures in the 2016 Budget Draft to be announced in the latter of October that put emphasis also on the supporting plans to low income earners. In Indonesia, while there were initially critical views over such measures as abolition of duplicated regulations and speed-up of authorization and permission taken in the first and second package, saying that they have no immediate effect on the economy, the measures in the third package that include a cut in electric rates have gained a certain level of appraisal. The government in Indonesia has expressed the intention to take additional measures in the ahead, and it is highly expected that they will be quicker impacts to support the economy.

Chart1 : Inflation Rate in ASEAN+India



Source : Respective country statistics, BTMU

Table1: Economic Packages of Malaysia and Indonesia

Malaysia	Indonesia
<ul style="list-style-type: none"> ○ Stability of financial market <ul style="list-style-type: none"> Promotion of reflux of overseas profits and domestic investment by government affiliated companies Investment in domestic stocks of 20bn ringgit through government funds. 	<ul style="list-style-type: none"> ○ The First Economic Package (Government) <ul style="list-style-type: none"> Strengthening of industrial competitiveness through abolition of duplicated regulations and beaurocracy Acceleration of state strategic business operations Promotion of investment in real estates
<ul style="list-style-type: none"> ○ Tourism <ul style="list-style-type: none"> 80mn Ringgit for sales promotion in the promising markets (ex.ASEAN and China) Improvement of the visa procedures Exemption of visa to Chinese travelers on group tour for the period of Oct 2015 to Mar 2016, etc. 	<ul style="list-style-type: none"> ○ Financial Stabilization (Central Bank) <ul style="list-style-type: none"> Stabilization of rupiah and strengthened liquidity (intervention in the futures market, issuance of Central Bank CD)
<ul style="list-style-type: none"> ○ Support for business companies <ul style="list-style-type: none"> Funding of 2bn Ringgit to Working Capital Guarantee Scheme to support financing of SMEs Exemption or reduction of import tariffs on 90 items for manufacturing industry 	<ul style="list-style-type: none"> ○ The Second Economic Package (Government) <ul style="list-style-type: none"> Tax preferences to traders Speed up of authorization on large investment in industrial properties
<ul style="list-style-type: none"> ○ Household support <ul style="list-style-type: none"> Establishment of low price retail shops Additional construction of low priced housing 	<ul style="list-style-type: none"> ○ The Third Economic Package (Government) <ul style="list-style-type: none"> Lowering of electric rates Establishment of a financial institution for specified industries (export-oriented, SMEs) , introduction of agriculture insurance
	<ul style="list-style-type: none"> ○ The Fourth Economic Package (Government) <ul style="list-style-type: none"> Revision of minimum wage computation framework (reform in frequency for review of indice used, etc.) Labor protection (financing of up to 50bn rupiah per company to export companies and SMEs)

Source: Various materials, BTMU

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