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Indonesia Loan Growth to Exceed Central Bank Forecast, BCA Says
2011-07-27 23:00:00.5 GMT

By Novrida Manurung

July 28 (Bloomberg) -- Indonesia's loan growth will probably surpass the central bank's estimate this year as low interest rates help drive demand in Southeast Asia's biggest economy, the nation's largest lender said.

Commercial lending may rise as much as 25 percent, more than last year's 23 percent growth and higher than Bank Indonesia's 2011 estimate of 24 percent, as slowing consumer prices allow policy makers to hold borrowing costs at a near-record low, PT Bank Central Asia President Director Jahja Setiaatmadja said in his first interview since being named to the position in June.

The central bank has left interest rates unchanged at 6.75 percent at its past five meetings, helping to boost private consumption. Gross domestic product will probably expand 6.3 percent to 6.8 percent this year, Governor Darmin Nasution said on July 12, the highest level since the Asian financial crisis that started in 1997, according to government data.

"If we look at Indonesia's macro economic growth, especially with demand for commodities still picking up, that drives income," Setiaatmadja said yesterday in his office in Jakarta. "If people can work and get more income, they will spend most of their income for consumer goods. That's good for the economy because it will create demand and factories will start to produce more and more."

The International Monetary Fund projects Indonesia's growth at around 6.5 percent in 2011-12. "There are no signs of any misalignment in the exchange rate, and export growth is strong - including in manufacturing," the IMF said in a statement released in Washington on July 22.

Interest Rates

Indonesia has refrained from following Asian nations from China to India in raising borrowing costs to damp inflation as fuel and commodity prices gained. India boosted its benchmark interest rate to 8 percent July 26, the 11th increase since the start of last year.

Indonesia's consumer prices accelerated 5.54 percent in June from a year earlier after the government declined to raise fuel prices and a stronger rupiah helped to cut import costs. The central bank has said it expects inflation of about 5 percent this year.

"I don't see any possibility that Bank Indonesia will raise the benchmark interest rate," Setiaatmadja said. "They will maintain until the end of this year,"

A slowdown in China's economy that reduced its demand for commodities such as coal, palm oil, and rubber could negatively affect Indonesia's growth, Setiaatmadja said.

China's Impact

"Demand for those commodities is coming from China," Setiaatmadja said. "A slowdown in China would have an impact on commodity prices and also Indonesia's exports."

China's gross domestic product grew 9.5 percent in the second quarter from a year earlier, slowing from 9.7 percent in the first three months. Inflation, which accelerated to 6.4 percent in June from a year earlier, has exceeded the government's 4 percent target every month this year. The IMF estimates China's economy will expand 9.6 percent for the full year, down from 10.3 percent in 2010.

Bank Central Asia, the nation's biggest lender by market value, may post lending growth of 20 percent to 22 percent to about 160 trillion rupiah (\$18.9 billion) for the first half of this year, much of it driven by mortgages and automotive financing, Setiaatmadja said.

The lender is offering promotional programs to attract customers for home loans, such as a fixed interest rate for the first one or two years and a guaranteed maximum for the remainder of the term, Setiaatmadja said.

It also offers motorcycle financing at a reduced interest rate to customers who participate in a program in which their employer deducts their weekly or monthly installment and pays it directly to the finance company, he said.

"Some our competitors offer no down payment, but that's dangerous," Setiaatmadja said. "We don't want to fight on the down payment side, but we will on the interest rate because we have the ability to do that."

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