

1BN) Indonesia Plans Stimulus to Boost Consumption Amid Slowdown
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Indonesia Plans Stimulus to Boost Consumption Amid Slowdown (1)
2012-06-13 07:57:31.108 GMT

(Updates with measures to manage rupiah volatility and inflation from third paragraph.)

By Hidayat Setiaji

June 13 (Bloomberg) -- Indonesia will implement stimulus measures to boost consumption and infrastructure spending as a global slowdown limits exports and an imminent election in Greece may deepen Europe's debt turmoil and derail growth.

The government will tap last year's 24-trillion rupiah (\$2.5 billion) budget surplus to fund building projects, and lift the tax-free annual income level to 24 million rupiah from 15.8 million rupiah, Bambang Brodjonegoro, head of fiscal policy at the Ministry of Finance, told reporters in Jakarta today.

Indonesia's policy makers have signaled they are prepared to support the economy with monetary and fiscal stimulus as Europe's protracted sovereign-debt crisis threatens global expansion and crimps demand for Asian exports. The economy may expand at the lower range of Bank Indonesia's forecast of about 6.3 percent to 6.7 percent in 2012, Governor Darmin Nasution said this month, while exports fell in April for the first time since 2009.

"During this time, exports aren't the main driver to support our growth," Brodjonegoro said. "As exports have fallen, we'll boost consumption and investment."

Bank Indonesia kept the benchmark reference rate at 5.75 percent for a fourth month yesterday, holding off from easing policy to support a weakening currency. The rupiah has fallen about 4 percent this year, the worst performer in Asia after India's rupee, as the escalating European crisis hurt exports and spurred outflows from emerging markets.

Indonesia has taken steps to reduce excess funds in the economy and contain inflation risks even as price gains unexpectedly eased in May, resisting the cuts in borrowing costs pursued by Australia and China in recent weeks.

Monetary Policy

Thailand and Sri Lanka kept interest rates unchanged today, while the Philippines and New Zealand are forecast to do the same later this week, according to surveys of economists by Bloomberg. Greece will hold elections on June 17 after an inconclusive earlier vote, and the result could hand power to parties that oppose the terms of the nation's rescue package, precipitating its exit from the 17-nation euro area.

The rupiah weakened 0.3 percent to 9,436 per dollar as of 2:24 p.m. in Jakarta today.

Bank Indonesia last month raised the rates on central bank bills and term deposits of all tenors to absorb liquidity. It also planned to start offering dollar term deposits this month to boost supply of the currency locally and stabilize the rupiah.

Maintaining Liquidity

Bank Indonesia will continue to take steps to maintain liquidity in the market by strengthening monetary operations with foreign-exchange instruments such as the dollar term deposits, it said yesterday. The central bank will also strengthen coordination with the government to mitigate the negative impact from global risks, it said.

Inflation in Southeast Asia's largest economy unexpectedly slowed for the first time in three months in May to 4.45 percent as rice costs remained stable amid the harvest period and price expectations eased after the government postponed a plan to raise subsidized fuel prices.

Bank Indonesia expects inflationary pressure to remain "manageable" and prices to stay within its target, it said yesterday.

The policy rate at 5.75 percent is still consistent with inflation projections of 3.5 percent to 5.5 percent in 2012 and 2013, the central bank said.

Growth Forecast

Economic growth in the second quarter and full-year 2012 is estimated to be 6.3 percent to 6.7 percent, even as downside risk remains, Bank Indonesia said yesterday. Domestic demand, consumption and investment remain strong while exports may slow because of weakening global demand and commodity prices, it said.

Imports will remain high because of growing domestic consumption.

Exports in April fell 3.5 percent from a year earlier, the first drop since 2009, as demand for coal, crude palm oil and rubber declined, according to the statistics bureau.

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