

Indonesia seeks immunity from Malaysia 'contagion'
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Indonesia will seek to shield itself from the spread of any financial contagion from Malaysia by improving market sentiment and using government borrowing to boost dollar inflows, the finance minister said today.

Twin declines in the rupiah and reserves have revived memories of the Asian financial crisis of the late 1990s, and concern about contagion from Malaysia, which is in the grips of an escalating political and financial crisis linked to a struggling state investment fund, are at the front of investors' minds.

"We are worried about the contagion effect," Bambang Brodjonegoro told Reuters in an interview.

The rupiah is one of Asia's worst-performing currencies this year, down by 15.44%, and is trading at 17-year lows against the US dollar.

The finance ministry is working with the central bank to replenish reserves by prioritising foreign-currency borrowing, Brodjonegoro said.

"There are a lot of outflows, so we need to somehow cover with inflows, and of course inflows will depend on government bonds and our borrowing strategy," the minister said, adding that the government has secured commitments from the World Bank, Asian Development Bank and KfW Development Bank.

Finance ministry officials have said Indonesia has secured US\$4.2 billion (RM18.52 billion) loans from the multilateral lenders to finance its budget deficit this year.

Indonesia's foreign reserves have dropped by more than US\$10 billion since March, as the currency has come under pressure from China's devaluation of the yuan in August and expectations of higher interest rates in the United States.

Growth in Southeast Asia's largest economy has slipped to its slowest pace since 2009 amid collapsing Chinese demand for its coal and other commodities.

The economy grew by just 4.67% from a year earlier in the second quarter, far below President Joko Widodo's campaign pledge of 7%.

Brodjonegoro said the official planning document for Widodo's five-year presidency still contained that figure as a target, but suggested that achieving it might be tough.

"What we're trying to do is paying attention to every year's challenges and targets and trying to cope with that," he said, adding that past governments had seldom achieved their growth goals.

To boost growth and improve sentiment, Widodo's government announced the

second instalment of a stimulus package on Tuesday, while Bank Indonesia on Wednesday unveiled a set of measures intended to defend the currency. – Reuters, September 30, 2015.

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