ISSN 1410 - 8046

BULLETIN OF MONETARY ECONOMICS AND BANKING

12th BMEB Call for Papers Special Issue: January, 2019

BANK INDONESIA

Bulletin of Monetary Economics and Banking

Bank Indonesia

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The bulletin is published quarterly in January, April, July, and October. Any person who wishes to obtain this publication shall contact the Division of Planning, Monitoring, and Publication Research, Bank Indonesia Institute, Bank Indonesia, Sjafruddin Prawiranegara Tower, 21st Floor, Jl. M.H. Thamrin No. 2, Jakarta, Phone (62-21) 2981-7335. For subscription, please contact: Phone (62-21) 2981-7335, Fax. (62-21) 350-1912.

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EDITORIAL

BMEB 12th Call for Paper Special Issue: An Overview

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This special issue of the *Bulletin of Monetary Economics and Banking* (BMEB) is an outcome of the 12th BMEB, Bank Indonesia Institute and the Asia-Pacific Applied Economics Association joint international conference. The conference was held in Bali from the 29-31 August, 2018. The theme of the conference was "*Maintaining Stability and Strengthening Momentum of Growth Amidst High Uncertainty*". Over 180 papers/abstracts were received by the organizing committee and after a rigorous review process the best 60 papers were selected for presentation at the conference. Each paper had a discussant and a detailed report was provided to each presenting author. Two months were offered for paper revisions. Following this process, seven papers were selected for formal reviews at the BMEB. These seven papers after further rounds of revisions have been accepted for publication and this special issue is devoted to these seven papers.

These seven papers cover a broad range of topics consistent with the theme of the call for paper. The first paper by Bernard Iyke tests the efficiency of the Indonesian foreign exchange market. His test makes use of the state-of-the-art econometric models for unit roots that accommodate (a) structural breaks in the data and (b) heteroskedasticity which typically characterizes high frequency data. While (a) has traditionally been known to be important for unit root testing, (b) has been more recently popularized in the unit root literature at least. Therefore, while both (a) and (b) are important modelling issues the combination of (a) and (b) is rarely used. This paper therefore makes a nice methodological demonstration of the new techniques and shows their relevance. Using monthly bilateral exchange rate data for Indonesia's 15 most important trading partner countries, Bernard Iyke shows that the efficient market hypothesis is rejected for half of the countries considered and that 71% of the countries have a fast mean reversion (half-live)—that is, a correction to disequilibrium takes place within a month. A range of robustness tests confirms these conclusions.

The second paper by Phan, Nguyen and Nguyen analyses the predictability of Indonesia's stock returns. Using both market and sector level return data, this study finds that of the wide range of predictors they consider, only Indonesian exchange rate is able to predict returns in all sectors, followed by the interest rate variable. The role of other predictors is not overwhelming; they predict returns in some sectors but not all. The out-of-sample tests are inconsistent with in-sample tests. In this regard the debate about the in-sample and out-of-sample tests seems to be alive at least when using an emerging country dataset.

The third paper by Badri Narayan Rath tests for total factor productivity amongst ASEAN countries. Using time-series historical data, he finds strong evidence of productivity convergence. His findings are robust to alternative methods of measuring convergence.

In the fourth paper, Arshad, Haroon, and Rizvi focus on understanding Asian emerging stock markets. They focus on the markets' volatility and efficiency. Amongst their key findings, they show that the markets were characterized by higher volatility in the long term with lower volatility in the short term particularly during the time when countries experienced liberalization and fast-paced economic growth. They also document strong evidence of greater market efficiency in the long-term owing to liberalization policies.

The fifth paper by Vidya and Prabheesh take issue with intra-industry trade (IIT) between India and Indonesia. Their findings confirm that Indonesia's trade with India has an IIT characteristic; however, the intensity of IIT has not shown any remarkable improvement over the years. They propose and estimate a IIT model showing specifically that factors such as trade imbalances, disparity in demand structure and human capital endowments reduce IIT while foreign direct investment and trade openness improve IIT.

The second last paper of the issue by Kannan Thuraisamy analyses the credit risk dynamics of Indonesian bonds. The author's main finding is that key macroeconomic variables, such as asset prices and exchange rates, are helpful in pricing risky debt issued by Indonesia.

The last paper by Shi and Zhao provide an empirical test of residents' satisfaction and influencing factors in the supply of public goods in China. This study is unique because it is based on an original data sample consisting of 400 farmers from China's Shaanxi province and offers an insightful analysis. The study shows that age, education, and agriculture are some of the variables that affect satisfaction. A range of policy recommendations are offered.

These papers have implications for future research on both Indonesia and the region. The papers by Bernard Iyke, Phan, Nguyen and Nguyen, and Arshad, Haroon, and Rizvi tell that asset pricing studies are lacking, particularly on Indonesia. More analysis of Indonesia's asset prices is needed, particularly in an attempt to understand how Indonesia is connected to the region's financial markets. There is lack of knowledge on this.

The papers by Badri Narayan Rath and Vidya and Prabheesh speak about how productivity and trade have evolved in Indonesia and the region. More understanding of the productivity convergence at the provincial level in Indonesia is needed to understand productivity gaps and inequalities within Indonesia. The IIT paper tells a bilateral story involving only India. Future studies can consider other major trading partners of Indonesia.

The paper by Kannan Thuraisamy opens up a new direction of research on Indonesia, focusing on the bond market. This paper sets the foundation for more studies on (a) the role of the Indonesian bond market in shaping pricing mechanisms in the financial market and (b) the inter-relationship between Indonesian and regional bond markets.