

## BI Policy:

## No alarms and no surprises (please)

Thierris Nora Kusuma  
Economist/Analyst

Barra Kukuh Mamia  
Senior Economist

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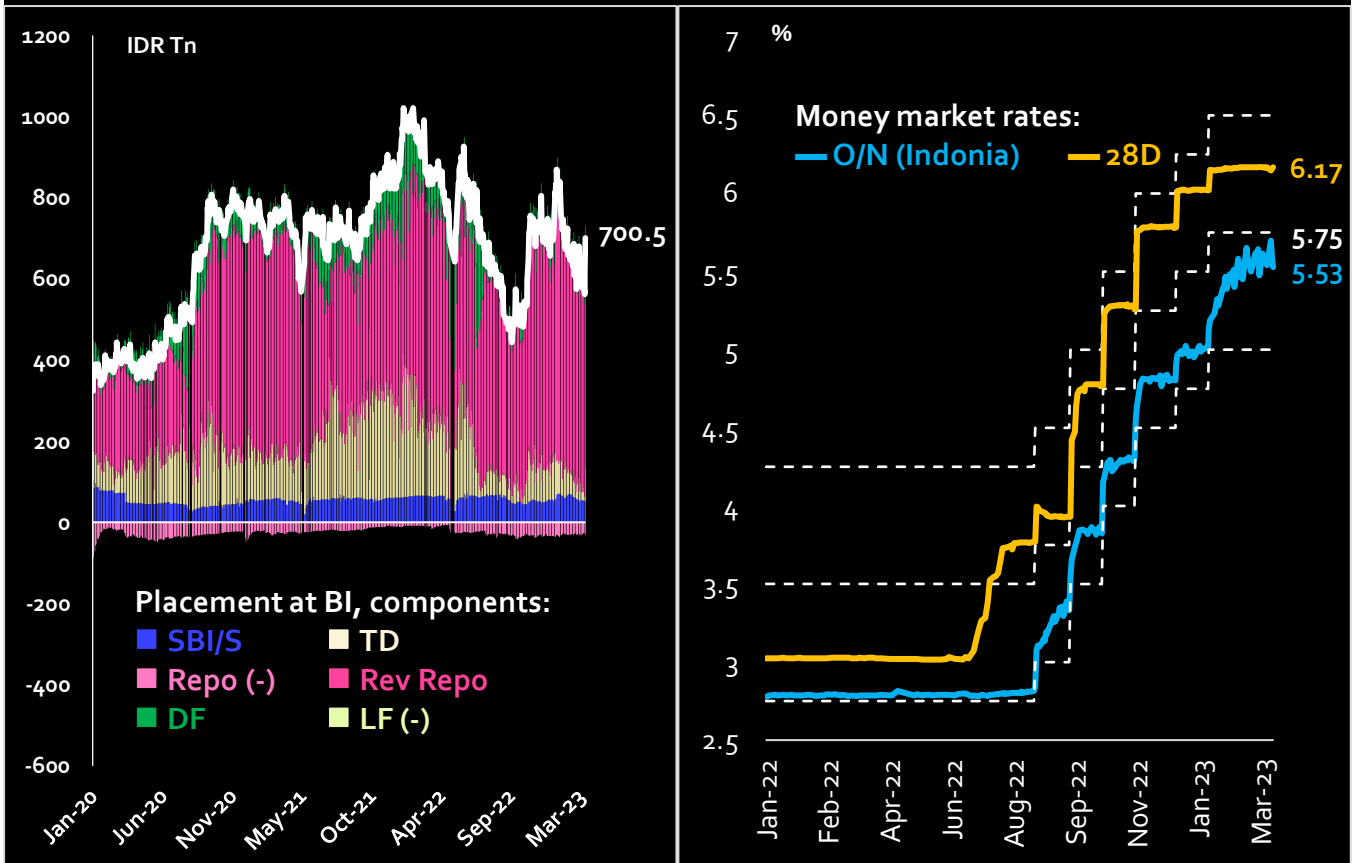
### Executive Summary

- BI maintained the BI7DRR at 5.75%, ample domestic liquidity as shown in February's trade surplus, recent rollout of the special term deposit facility for export receipts (DHE), and the still inflowing foreign capital despite of the recent events have given BI room to not hike rates.
- For the short term outlook, it will be quite challenging as the domestic liquidity is not clear to remain abundant due to the expected significant narrowing of the trade surplus and FX injections kept being used to pay for oil imports, resulting in inflows need to keep stable Rupiah.
- Indonesia and Rupiah may benefit in the long run from the "Financial repression", but the short-term picture is far murkier. BI may stay higher for longer, with a "tactical" rate hike or two is still not out of the question if the Rupiah comes under pressure.

- Bank Indonesia maintained the BI7DRR at 5.75%, as widely expected, with pretty much no change in its tried and true policy mix. Of course, this "no surprises" course contrasts with the ongoing turmoil in the global market. So how does BI remain so calm and collected?
- The first answer lies in the ample domestic liquidity, at least for now. February's trade surplus, at USD 5.48 Bn, might have surprised on the large side, but the less surprising bit was the success of the MoF's frontloaded bond issuance – especially January's global bond issue, which yielded USD 2 Bn (net). The recent rollout of the special term deposit facility for export receipts (DHE) also helps on the margin, netting USD 173 Mn to date. All these have bolstered liquidity, which gives BI room to not hike rates despite all the uncertainty that makes capital flows more volatile.
- The second answer is the global policy response, or expectations thereof, in the aftermath of the Silicon Valley Bank (SVB) collapse and the ongoing Credit Suisse (CS) crisis. From a previously hawkish outlook – a 50 bps hike next week – the Fed funds futures market is now effectively betting on a Fed rate cut to start by the second half of the year. Meanwhile, the Swiss central bank (SNB) is going to lend USD 54 Bn to CS, something which might in turn require them to tap USD swap lines from the Fed – thereby swelling its balance sheet. All these are good news for global liquidity and capital inflows to Indonesia, and indeed there has been a small net inflow into Indonesian bonds in recent days.

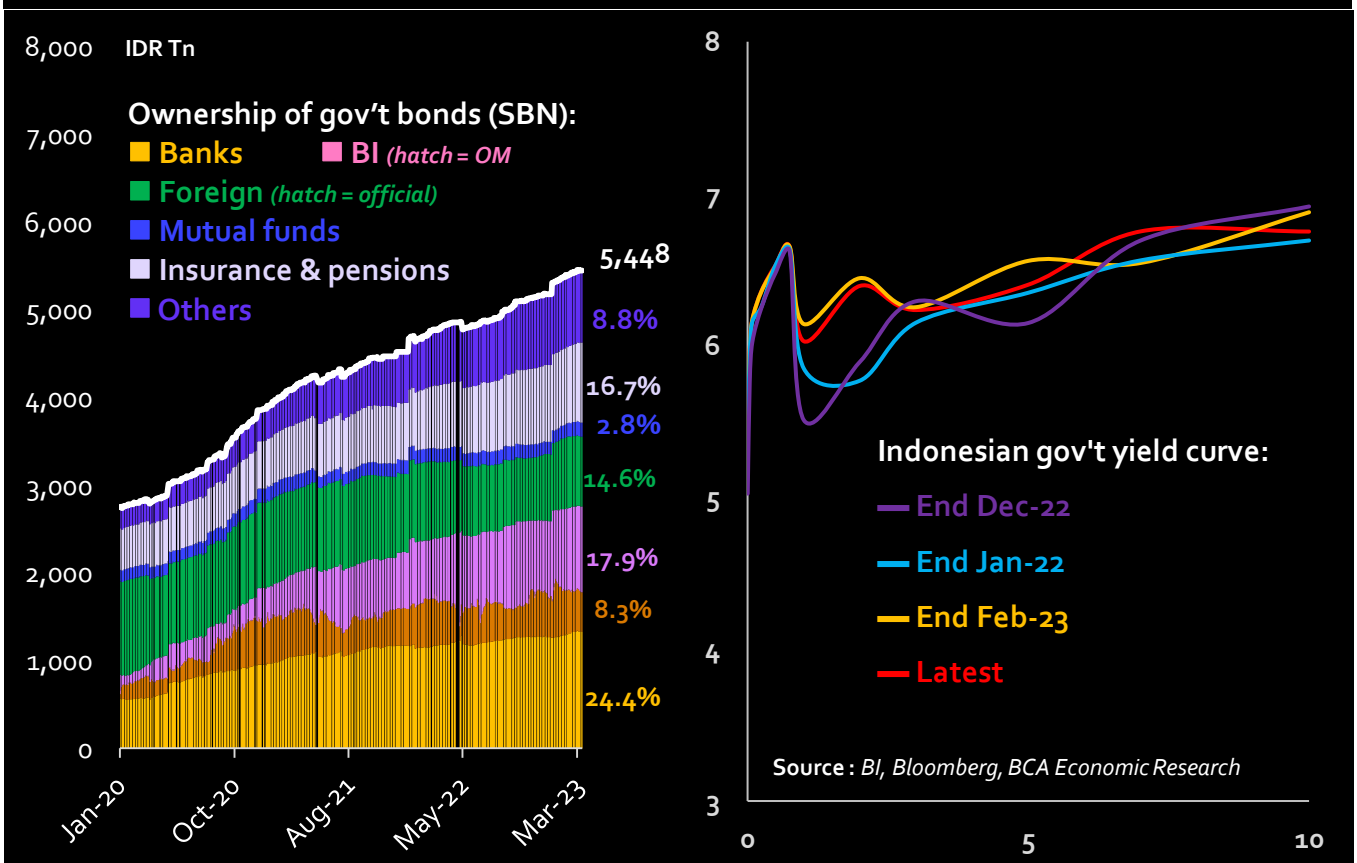
- But the coast is far from clear, and the next one or two months might be quite challenging indeed. For one, it is not clear if domestic liquidity would remain this abundant, since we expect a significant narrowing of the trade surplus alongside declining coal prices. The FX injection from the global bonds also tends to be used up quite quickly to pay for Pertamina's oil imports, although the falling oil prices should ease the pain. Inflows are thus still needed to keep a stable Rupiah.
- Furthermore, the global banking crisis could be a double-edged sword, depending on how quick and how effective the policy response would prove to be. It is also clear that the Fed is trying to differentiate their bank stabilization scheme (the Bank Term Funding Program) from the "regular" QE, thus theoretically enabling them to keep tightening policy while rescuing US banks (although non-US banks are a different story). If the Fed could pull this off – a big IF – then there is no guarantee that a pivot is happening anytime soon. This is similar to what the European Central Bank is doing, by hiking 50 bps despite the crisis. Market sentiment might then swing back to "flight to safety" mode, which would strengthen the USD.
- The situation is thus a delicate one for Indonesia. While we believe there is light at the end of the tunnel, in the form of a prolonged "financial repression" regime where global nominal rates are lower than inflation, the short-term picture is far murkier. We now think that BI staying put at 5.75% is far and away the likelier scenario, but a "tactical" rate hike or two is still not out of the question if the Rupiah comes under pressure. We are also still skeptical of an outright rate cut by BI later this year even if the Fed pivots, especially since an aggressive pivot is unlikely when inflation is still entrenched.

**Panel 1. While BI stays put, liquidity has begun to tighten with interbank spreads widening**



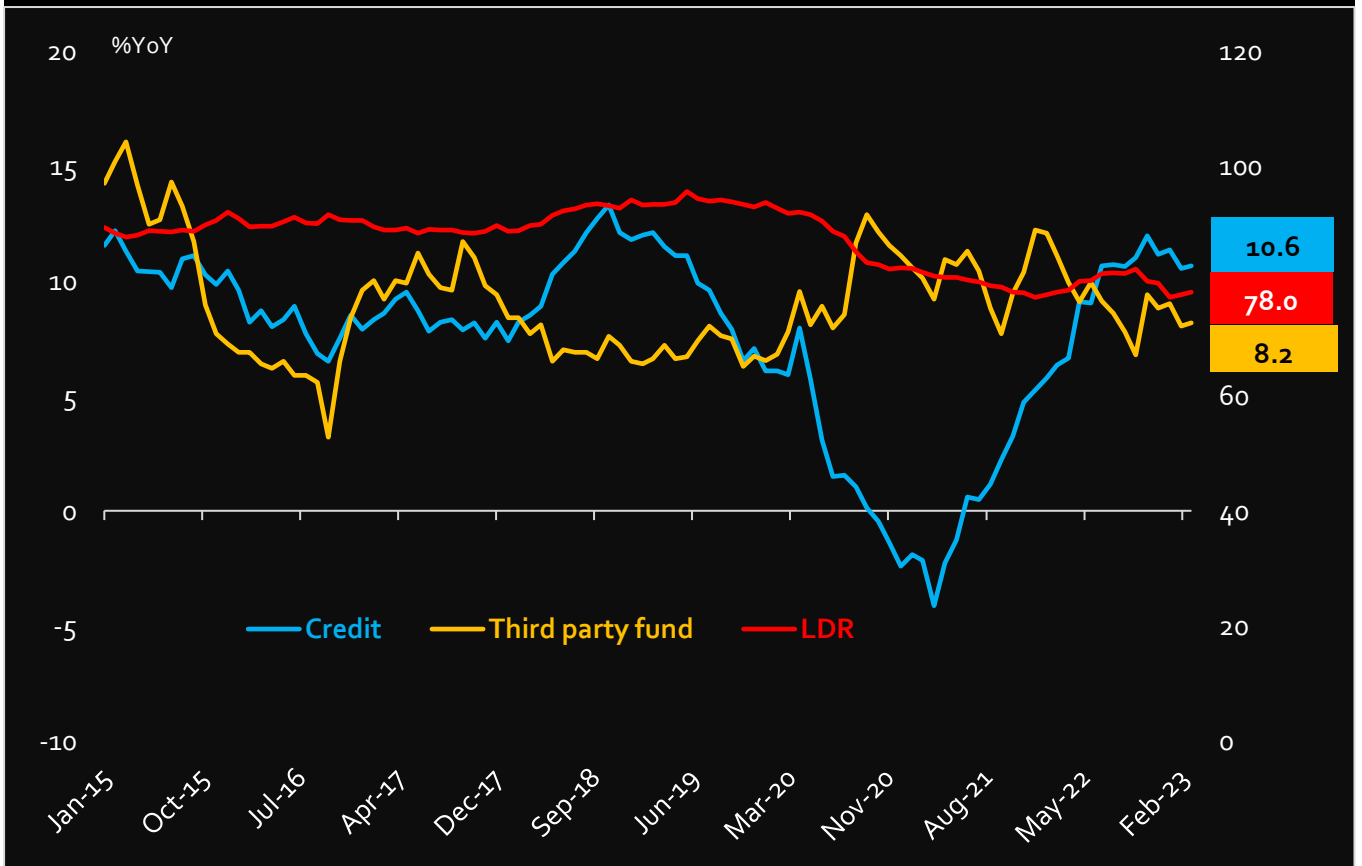
Source: BI, Bloomberg, BCA Economist

**Panel 2. Foreign capital still flowing in, maintaining stable Indonesian yields**



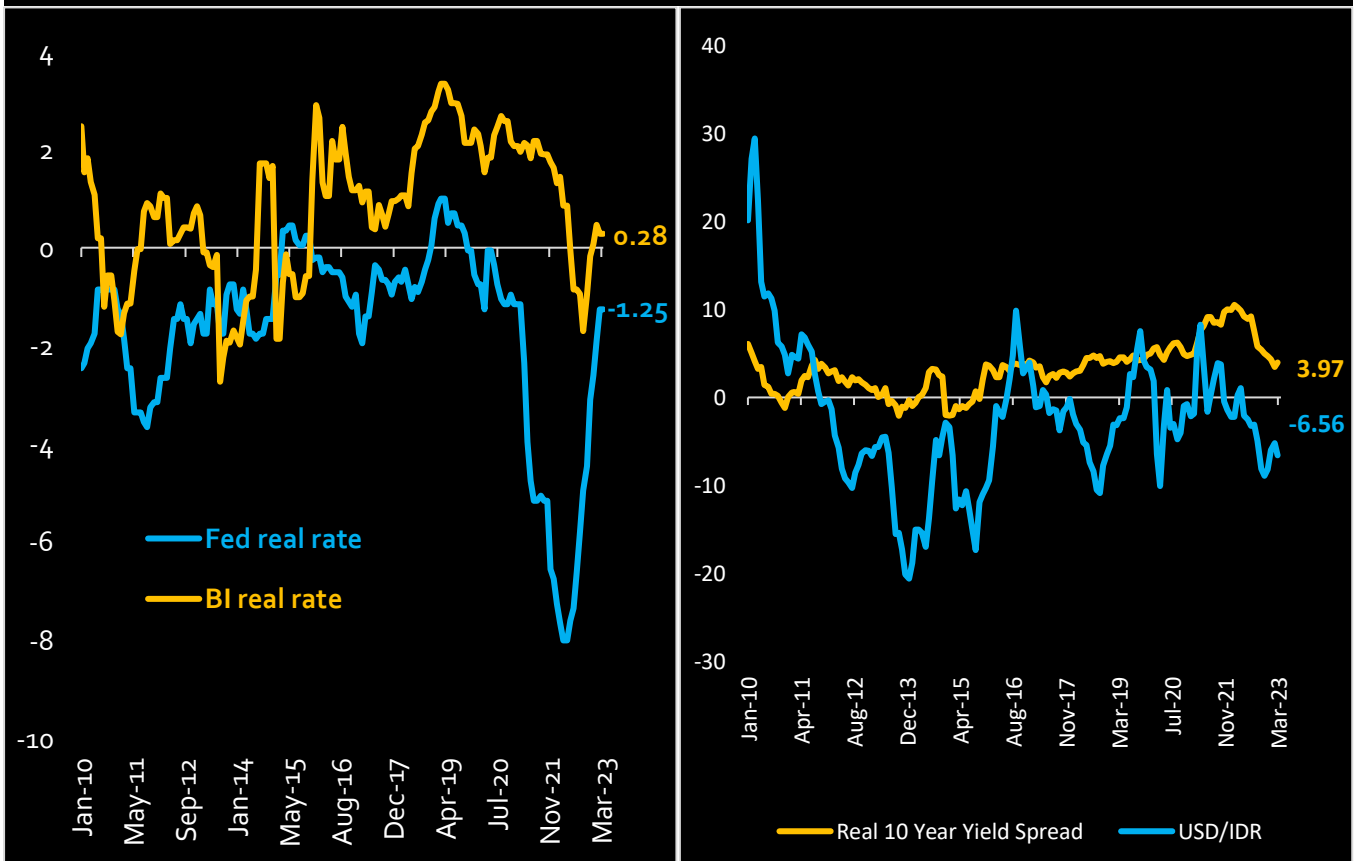
Source: BI, Bloomberg

**Chart 1. Third-party fund and credit growth has moderated somewhat from 2022 pace**



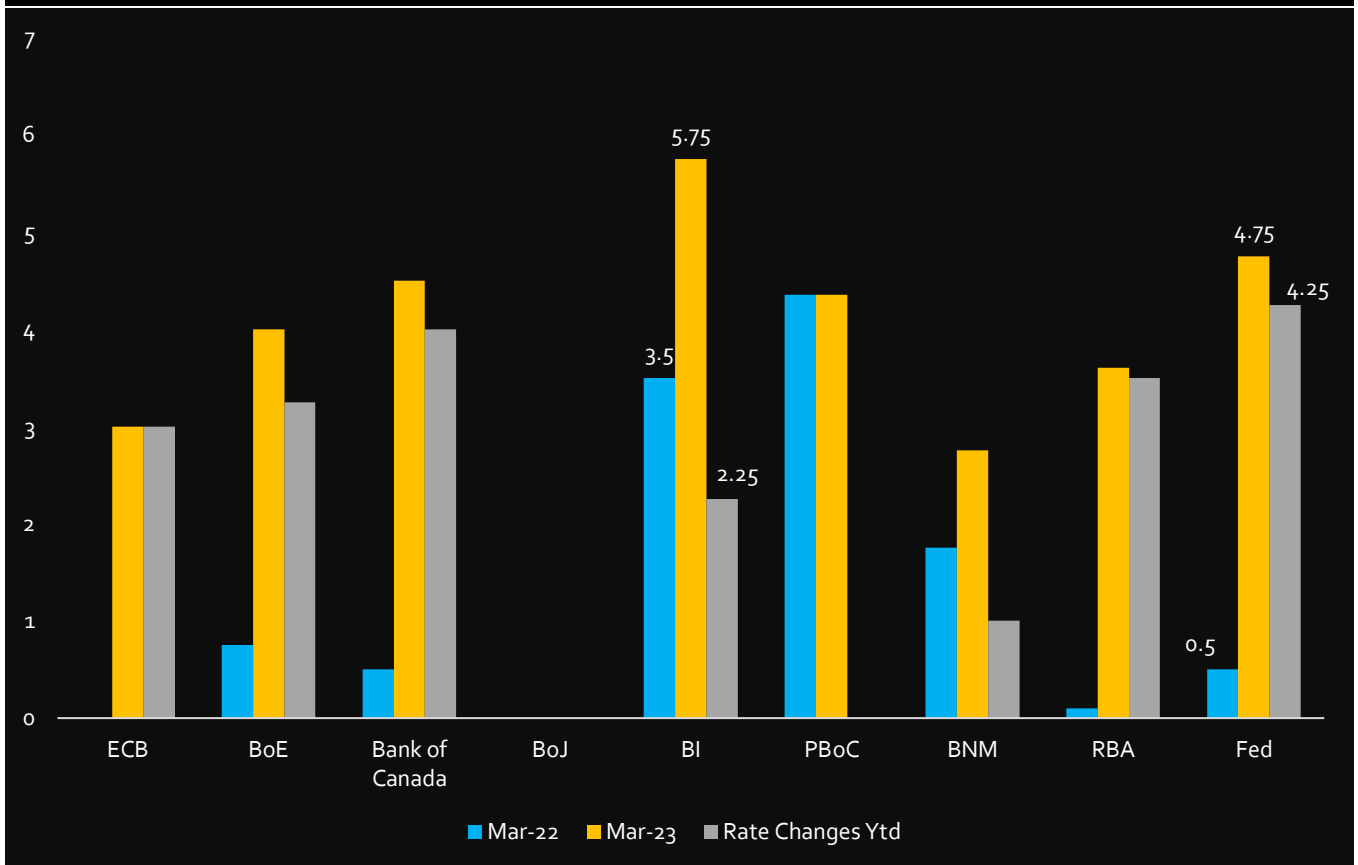
Source: BI, OJK, Bloomberg

**Panel 3. The Fed's hawkish posture has narrowed the spread between ID-US assets**



Source: BI, Bloomberg

**Chart 2. BI's total rate hikes of 250 bps is relatively modest compared to other central banks**



Source: Bloomberg

## Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	15-Mar	-1 mth	Chg (%)
US	4.75	Mar-23	-1.25	Baltic Dry Index	1,603.0	602.0	166.3
UK	4.00	Mar-23	-6.10	S&P GSCI Index	540.7	597.6	-9.5
EU	3.00	Mar-23	-5.50	Oil (Brent, \$/bbl)	73.7	86.4	-14.7
Japan	-0.10	Jan-16	-4.40	Coal (\$/MT)	204.7	210.7	-2.9
China (lending)	4.35	Mar-23	3.35	Gas (\$/MMBtu)	2.45	2.42	1.2
Korea	3.50	Feb-23	-1.30	Gold (\$/oz.)	1,918.6	1,865.6	2.8
India	6.50	Feb-23	0.06	Copper (\$/MT)	8,480.8	8,828.8	-3.9
Indonesia	5.75	Mar-23	0.28	Nickel (\$/MT)	22,788.0	27,575.5	-17.4
				CPO (\$/MT)	932.3	896.1	4.0
				Rubber (\$/kg)	1.30	1.36	-4.4
Money Mkt Rates	15-Mar	-1 mth	Chg (bps)				
SPN (1M)	2.95	4.33	-137.9	External Sector	Feb	Jan	Chg (%)
SUN (10Y)	6.75	6.65	9.6	Export (\$ bn)	21.40	22.32	-4.15
INDONIA (O/N, Rp)	5.53	5.40	12.5	Import (\$ bn)	15.92	18.44	-13.68
JIBOR 1M (Rp)	6.40	6.37	2.6	Trade bal. (\$ bn)	5.48	3.88	41.15
Bank Rates (Rp)	Nov	Oct	Chg (bps)	Central bank reserves (\$ bn)*	140.3	139.4	0.64
Lending (WC)	8.60	8.58	1.67	Prompt Indicators	Feb	Jan	Dec
Deposit 1M	3.69	3.36	32.89	Consumer confidence index (CCI)	122.4	123.0	119.9
Savings	0.67	0.67	0.00	Car sales (%YoY)	7.4	11.9	9.0
Currency/USD	15-Mar	-1 mth	Chg (%)	Motorcycle sales (%YoY)	56.3	38.6	24.6
UK Pound	0.829	0.829	-0.04	Manufacturing PMI	Feb	Jan	Chg (bps)
Euro	0.945	0.937	-0.95	USA	47.7	47.4	30
Japanese Yen	133.4	131.4	-1.54	Eurozone	48.5	48.8	-30
Chinese RMB	6.906	6.815	-1.33	Japan	47.7	48.9	-120
Indonesia Rupiah	15,365	15,134	-1.50	China	51.6	49.2	240
Capital Mkt	15-Mar	-1 mth	Chg (%)	Korea	48.5	48.5	0
JCI	6,628.1	6,880.3	-3.67	Indonesia	51.2	51.3	-10
DJIA	31,874.6	33,869.3	-5.89				
FTSE	7,344.5	7,882.5	-6.83				
Nikkei 225	27,229.5	27,671.0	-1.60				
Hang Seng	19,539.9	21,190.4	-7.79				
Foreign portfolio ownership (Rp Tn)	Feb	Jan	Chg (Rp Tn)				
Stock	2,730.0	2,700.6	29.43				
Govt. Bond	804.3	811.9	-7.57				
Corp. Bond	12.4	12.4	-0.06				

Source: Bloomberg, BI, BPS

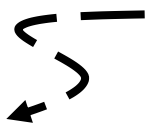
Notes:

^Data for January 2022

\*Data from earlier period

\*\*For changes in currency: **Black** indicates appreciation against USD, **Red** otherwise

\*\*\*For PMI, **>50** indicates economic expansion, **<50** otherwise



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## Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	4.7
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5011
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	4.3
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,647
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	19.8
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-1.2

\*Estimated number

\*\* Estimation of Rupiah's fundamental exchange rate

### Economic, Banking & Industry Research Team

**David E.Sumual**

*Chief Economist*

david\_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

**Victor George Petrus Matindas**

*Senior Economist*

victor\_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

**Keely Julia Hasim**

*Economist / Analyst*

keely\_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

**Arief Darmawan**

*Research Assistant*

arief\_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

**Agus Salim Hardjodinto**

*Head of Industry and Regional Research*

agus\_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

**Gabriella Yolivia**

*Industry Analyst*

gabriella\_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

**Elbert Timothy Lasiman**

*Economist / Analyst*

Elbert\_lasiman@bca.co.id

+6221 2358 8000 Ext: 1074310

**Firman Yosep Tember**

*Research Assistant*

firman\_tember@bca.co.id

+6221 2358 8000 Ext: 20378

**Barra Kukuh Mamia**

*Senior Economist*

barra\_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

**Lazuardin Thariq Hamzah**

*Economist / Analyst*

lazuardin\_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

**Thierris Nora Kusuma**

*Economist / Analyst*

thierris\_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

### PT Bank Central Asia Tbk

#### Economic, Banking & Industry Research of BCA Group

20<sup>th</sup> Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

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