

One hurdle evaded, but a higher one remains

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Summary

- Delaying the VAT rate hike while maintaining the stimulus package would support further private consumption growth, especially given the limited recovery in Q4-2024.
- The planned tax amnesty program is expected to provide a one-time boost to liquidity and fiscal revenue in 2025, but the revenue shortfall from the VAT hike delay may still require the government to issue additional debt.
- The government may also try to reduce its spending commitment to offset the expected lost revenue. However, this policy may stunt growth momentum in the short term.

- The global economy in 2025 seems to be picking up where it left off in 2024. Commodity prices continue to flatline amidst concern over the global manufacturing activity and overall growth momentum, which is especially evident in China considering its already high level of inventory and the threat of another trade war. China's cratering yield (10Y yield is now at a record low of 1.60%) adds to the sign of problems brewing over the Chinese economy, which may tempt Chinese authorities to increase the scale of their stimulus packages in 2025.
- The conditions outside of China are equally uncertain. Concerns over the expected US policy shift drive up the USD's value, as indicated by the 6.20% appreciation in the DXY index (to 108.88) since the US election. While moving in a different direction relative to China's bond market, the upward trend in the UST market (up 90.87 bps since the first FFR cut in September 2024) is another source of concern, as the imploding UST market may force the upcoming US government to scale back its deficit-enabled growth programmes.

Blocked by the wall of higher rates

- As is generally the case outside of periods of high commodity prices, the adverse condition in the global financial market finds its way to the Indonesian financial market. The Rupiah continue to languish above the 16,000 psychological level, forcing Bank Indonesia to be more conservative in executing its rate-cutting campaign. BI's limited room for policy loosening is bad news for Indonesia's growth outlook, which, per our outlook ([hyperlink](#)), could miss the baseline 5.00% YoY growth

amidst the worrying household consumption trend.

- The widespread concern over households' declining consumption has led to the decision to keep the VAT tax rate effectively at 11% (12% VAT tax multiplied by 11/12 taxable value), while stimulus packages on the VAT rate hike are retained. The urgency behind this decision is clear for anyone to see. **Our internal data shows that consumer transactions have barely improved in Q4-2024**, thus necessitating more interventions from the government to safeguard the recovery (*see Chart 1*). The government's shifting focus from infrastructure-related spending to social spending will strengthen the spillover effect from fiscal spending to household consumption, thus avoiding the condition that played out in 2024 (low spillover effect from fiscal spending to consumer transactions growth due to higher spending for infrastructure-related capital goods).
- While the delay in the effective VAT rate hike (and the retained stimulus package) is indeed good news, what the policy means to the government's coffer should also be a subject for discussion. The government have noted that the increase in transaction volume due to the decision will help to generate more tax revenue, but we've been waiting for 44 years for such a Lafferian argument to be realised outside of the academic world. **Our best bet, then, is for the lost revenue from the delayed effective VAT rate hike to add around IDR 75.5 Tn in fiscal deficit**, pushing the government's budget balance in 2025 to around -2.84% of

"Not increasing the VAT rate, while keeping the stimulus package will aid further recovery in private consumption, which is only marginally recover in Q4 2024"

GDP (see Chart 2). The benchmark 10Y SBN has risen to 7.026%, up 7.5 bps since pushbacks to the planned tax hike started to widespread while the CDS on Indonesian government debt increased to 78.1 from 73.7 in the same period.

- **The government is rumoured to float a third tax amnesty programme, which could cover the lost revenue from the delayed effective VAT rate hike. However, the programme cannot be a long-term solution for Indonesia's stagnating tax ratio.** While the previous tax amnesty (January to July 2021) generated around IDR 61 Tn in tax revenue, many analysts have noted diminishing returns from repeated iterations of such policies, leading to the speculation that another instalment of the programme may yield even less revenue for government coffers.
- This does not mean that another tax amnesty programme would not provide a substantial contribution to the domestic condition. The previous instalment of the programme has proven significant in turning the domestic liquidity condition upward, especially in the private sector (*see Chart 3*). **Some additional conditions to the programme (such as a discounted income tax rate on disclosed assets to be invested) may also help to drive up the demand for SBN**, the issuance of which in 2025 may increase beyond the planned IDR 642.6 Tn (IDR 527.8 Tn in 2024) given the expected higher deficits.
- Indeed, apart from the IDR 114.9 Tn increase in its supply (and possibly, some addition due to the lost revenue from the delayed effective VAT rate hike), the demand profile adds

another layer of uncertainty to the SBN market. **The volatile IDR means that the SBN market may continue to compete with SRBI for liquidity in 2025, possibly lowering the demand for SBNs from banks and other financial institutions. The government, then, may continue to rely on individual investors to absorb the higher SBN supply**, as around 55.43% (IDR 221.8 Tn out of IDR 400.1 Tn) of tradable SBNs issued in 2024 are purchased by individual investors and mutual funds (a proxy for household demand for financial assets). BI may have announced its decision to absorb up to IDR 150 Tn of SBN in 2025. However, this action may merely suffice to address maturing SBNs or offset potential outflows from the SBN market by foreign investors and banks, possibly driven by the continued issuance of SRBI.

- Luckily, the SBN market may continue to attract attention from individual investors, given the high yield at the moment (*see Chart 4*). BI's restricted rate-cutting path may keep SBN yield high, while delayed effective VAT tax rate hike will also produce the same result for real interest rates, given the reduced inflationary risk. Alas, this situation does little to encourage upper-middle-income households to boost their consumption, as the government continue to rely on savings from the household sector to keep the SBN yield stable. Hence, while the delayed effective VAT rate hike may create conditions for a further

recovery in household consumption, **the hitherto high interest rate may continue to be a drag that holds up private consumption from taking off.**

- **The government, of course, always have the option to control their financing requirement by scaling back spending commitments.** The President has repeatedly emphasised the need to improve government efficiency, with the Ministry of Finance estimating that the recent directive to cut budgets for business trips and meetings could save around IDR 3.6 Tn in public funds. Better targeted (or at least, more restricted) distribution of subsidised goods, chief among all subsidised fuel and household gas, could also help the government reduce spending commitments to reflect the potential lost revenue. **However, this policy call could lead to higher inflation and slower consumption growth in the short term** – outcomes the government appears keen to avoid during its first full year in office.

“However, the need to issue more debt to cover the revenue shortfall may keep real interest rates high, discouraging households to increase their consumption rate”

Chart 1

Pre-conditions to take off

The government is still needed to pump liquidity into the economy to drives up private consumption, although the relationship was weak in 2024 given the high capital spending.

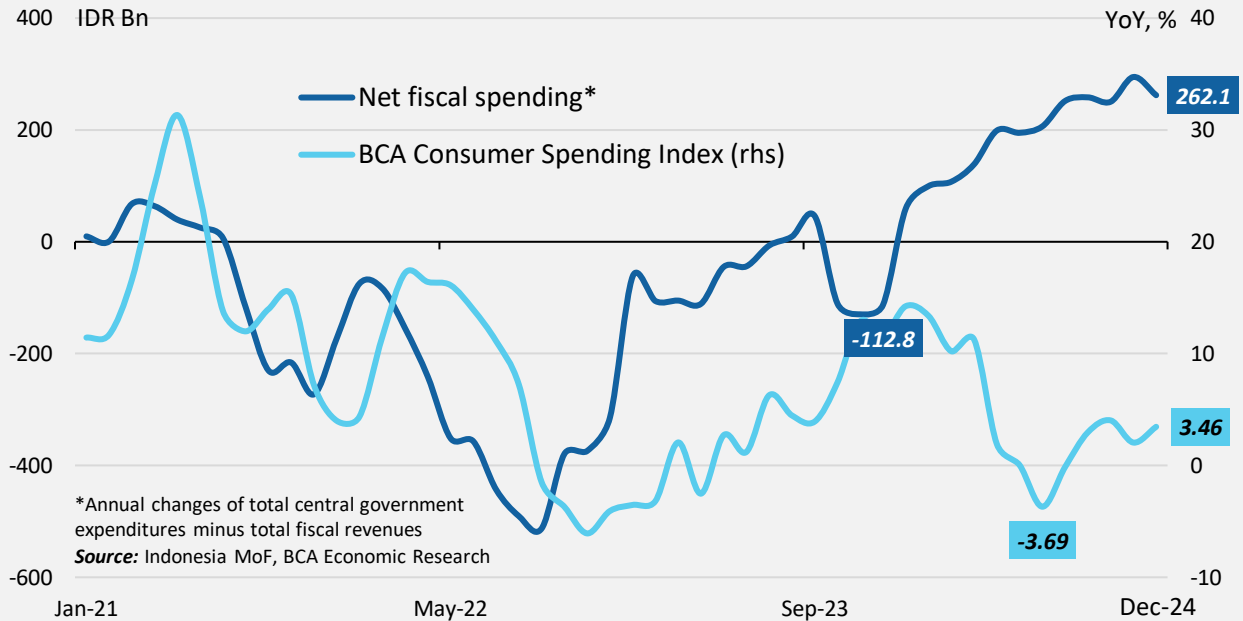
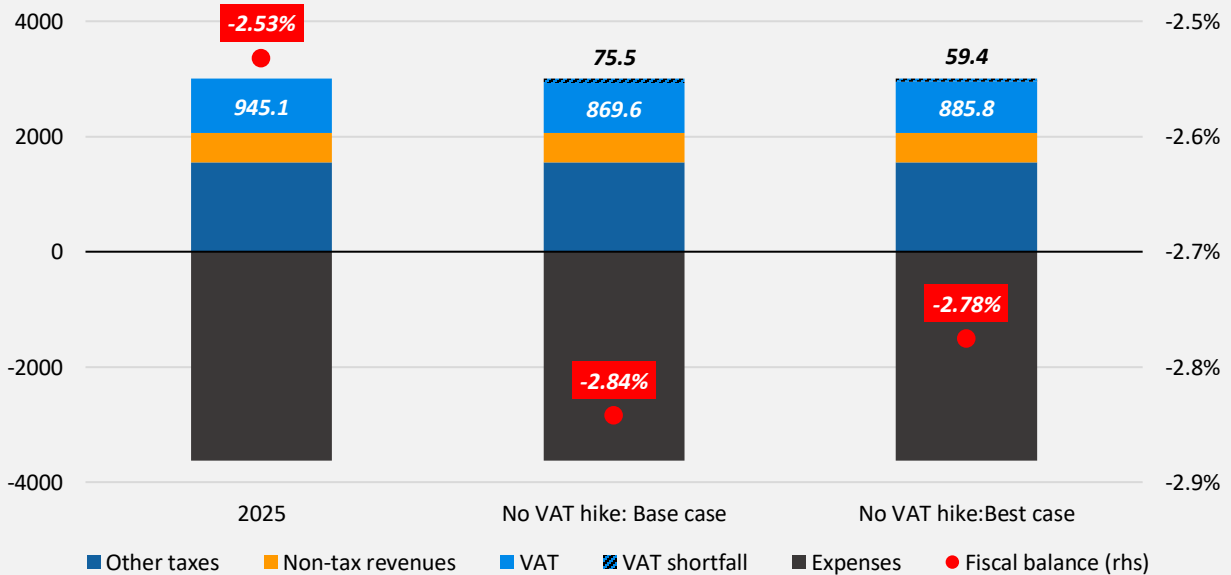


Chart 2

Deeper hole to cover

No effective VAT rate hike may deepen Indonesia’s fiscal deficit to around 2.80% of GDP, which may lead to higher SBN issuance unless the government opt to reduce its spending commitment.



Source: Indonesia Ministry of Finance, BCA Economic Research

Chart 3

One-time boost

Tax amnesty is a proven way to boost short-term IDR liquidity, but the programme cannot be a long-term solution to solve Indonesia’s structurally low tax revenue and liquidity shortfall.

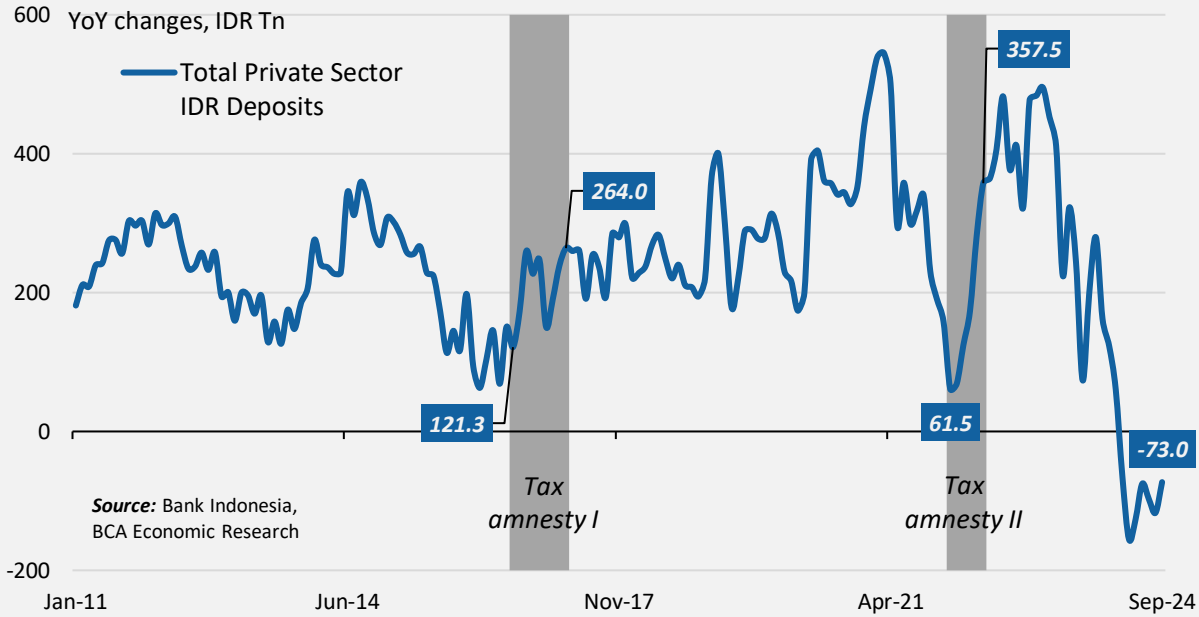
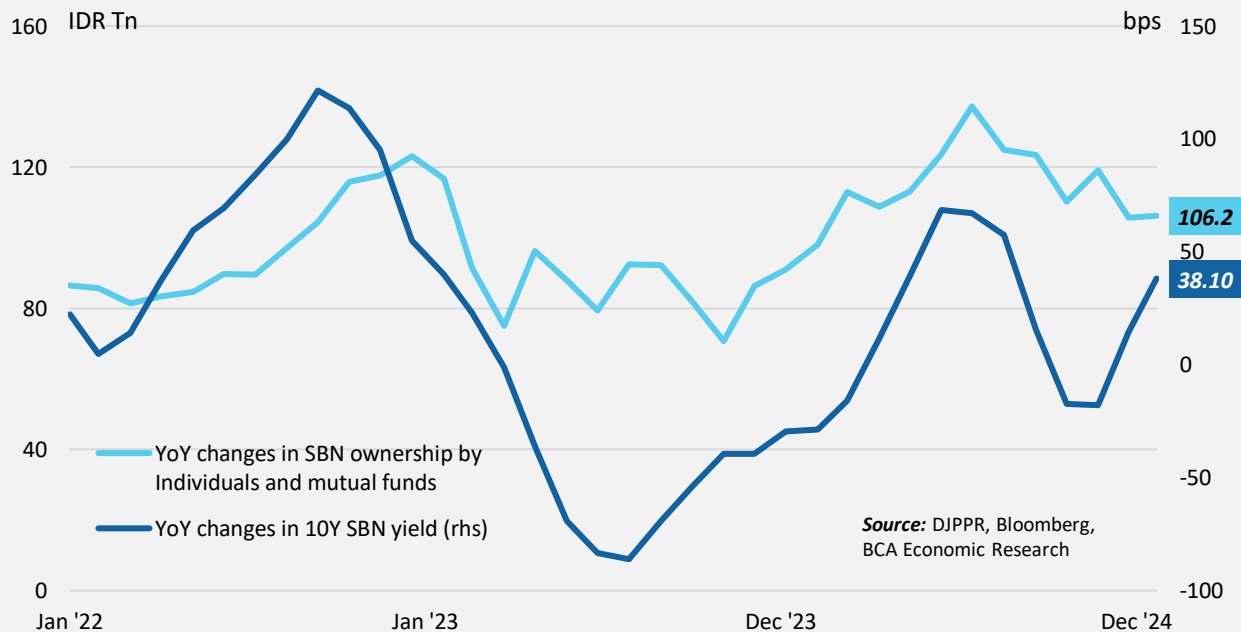


Chart 4

Chalk and Cheese

The high real interest rate may encourage individual investors to help absorb the higher SBN issuance in 2025, but doing so shall discourage consumption.



Economic Calendar				
		Actual	Previous	Forecast*
02 January 2025				
ID	S&P Global Manufacturing PMI	51.2	49.6	50
ID	Inflation Rate YoY, %	1.57	1.55	1.7
US	S&P Global Manufacturing PMI	49.4	49.7	48.3
07 January 2025				
US	Balance of Trade, USD Bn		-73.8	-70
08 January 2025				
ID	Foreign Exchange Reserves, USD Bn		150.2	152.0
ID	Motorbike Sales YoY, %		-10.3	-
09 January 2025				
ID	Consumer Confidence		125.9	120
EA	Retail Sales YoY, %		1.9	1.7
10 January 2025				
ID	Car Sales YoY, %		-11.9	-
ID	Retail Sales YoY, %		1.5	-
US	Non-Farm Payrolls, th		227	200
12 January 2025				
CN	Inflation Rate YoY, %		0.2	0.4
CN	Balance of Trade, USD Bn		97.44	85
15 January 2025				
ID	Balance of Trade, USD Bn		4.42	2.8
US	Inflation Rate YoY, %		3.3	3
16 January 2025				
EA	Balance of Trade, USD Bn		6.8	-
17 January 2025				
CN	Retail Sales YoY, %		3	2.8
CN	GDP Growth Rate YoY, %		4.6	5
ID	Loan Growth YoY, %		10.79	10
22 January 2025				
ID	M2 Money Supply YoY, %		7	-
24 January 2025				
ID	Foreign direct investment, % YoY		18.55	-
30 January 2025				
US	Fed Interest Rate Decision, %		4.5	-
31 January 2025				
US	PCE Price Index YoY, %		2.4	2.4

*Forecasts of some indicators are simply based on market consensus
 Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	3-Jan	-1 mth	Chg (%)
US	4.50	Dec-24	1.80	Baltic Dry Index	1,072.0	1,237.0	-13.3
UK	4.75	Nov-24	2.15	S&P GSCI Index	553.6	540.0	2.5
EU	3.15	Dec-24	0.95	Oil (Brent, \$/brl)	76.5	73.6	3.9
Japan	0.25	Jul-24	-3.00	Coal (\$/MT)	124.0	136.3	-9.0
China (lending)	2.00	Sep-24	4.15	Gas (\$/MMBtu)	3.40	2.94	15.6
Korea	3.00	Nov-24	1.10	Gold (\$/oz.)	2,640.2	2,643.5	-0.1
India	6.50	Feb-23	1.02	Copper (\$/MT)	8,768.0	9,010.2	-2.7
Indonesia	6.00	Sep-24	4.43	Nickel (\$/MT)	14,886.5	15,791.3	-5.7
				CPO (\$/MT)	1,049.9	1,182.8	-11.2
				Rubber (\$/kg)	1.96	2.05	-4.4
Money Mkt Rates	3-Jan	-1 mth	Chg (bps)	External Sector	Nov	Oct	Chg (%)
SPN (1Y)	6.73	6.88	-14.6	Export (\$ bn)	24.01	24.41	-1.66
SUN (10Y)	7.00	6.87	13.4	Import (\$ bn)	19.59	21.94	-10.72
INDONIA (O/N, Rp)	5.98	6.15	-17.0	Trade bal. (\$ bn)	4.42	2.48	78.56
JIBOR 1M (Rp)	6.62	6.63	-0.4	Central bank reserves (\$ bn)*	150.2	151.2	-0.66
Bank Rates (Rp)	Sep	Aug	Chg (bps)	Prompt Indicators	Nov	Oct	Sep
Lending (WC)	8.87	8.78	8.91	Consumer confidence index (CCI)	125.9	121.1	123.5
Deposit 1M	4.81	4.79	2.01	Car sales (%YoY)	-11.9	-3.9	-9.1
Savings	0.67	0.65	1.33	Motorcycle sales (%YoY)	-10.3	5.4	3.7
Currency/USD	3-Jan	-1 mth	Chg (%)	Manufacturing PMI	Dec	Nov	Chg (bps)
UK Pound	0.805	0.789	-1.97	USA	49.4	49.7	-30
Euro	0.970	0.952	-1.91	Eurozone	45.1	45.2	-10
Japanese Yen	157.3	149.6	-4.87	Japan	49.6	49.0	60
Chinese RMB	7.322	7.286	-0.48	China	50.5	51.5	-100
Indonesia Rupiah	16,190	15,940	-1.54	Korea	49.0	50.6	-160
				Indonesia	51.2	49.6	160
Capital Mkt	3-Jan	-1 mth	Chg (%)				
JCI	7,164.4	7,196.0	-0.44				
DJIA	42,732.1	44,705.5	-4.41				
FTSE	8,224.0	8,359.4	-1.62				
Nikkei 225	39,894.5	39,248.9	1.65				
Hang Seng	19,760.3	19,746.3	0.07				
Foreign portfolio ownership (Rp Tn)	Dec	Nov	Chg (Rp Tn)				
Stock	3,521.3	3,402.4	118.98				
Govt. Bond	876.6	872.5	4.15				
Corp. Bond	5.9	7.1	-1.18				

Source: Bloomberg, BI, BPS

Notes:

*Data from an earlier period

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

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

Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024E	2025E
Pertumbuhan PDB rill (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Pertumbuhan PDB nominal (% YoY)	6.7	-2.5	9.9	15.4	6.7	7.0	7.9
PDB per Kapita (US\$)	4175	3912	4350	4784	4920	4975	5005
Inflasi IHK (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6 [#]	2.3
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00 [#]	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	7.04	7.47
Nilai Tukar USD/IDR(end of year)	13,866	14,050	14,262	15,568	15,397	16,150	16,887
Neraca Perdagangan (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	31.4	26.2
Neraca Tahun Berjalan (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.9

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate

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