FOLLOW THE MONEY #1 – 2025

Bringing it all back home

Barra Kukuh Mamia
Head of Macroeconomic Research

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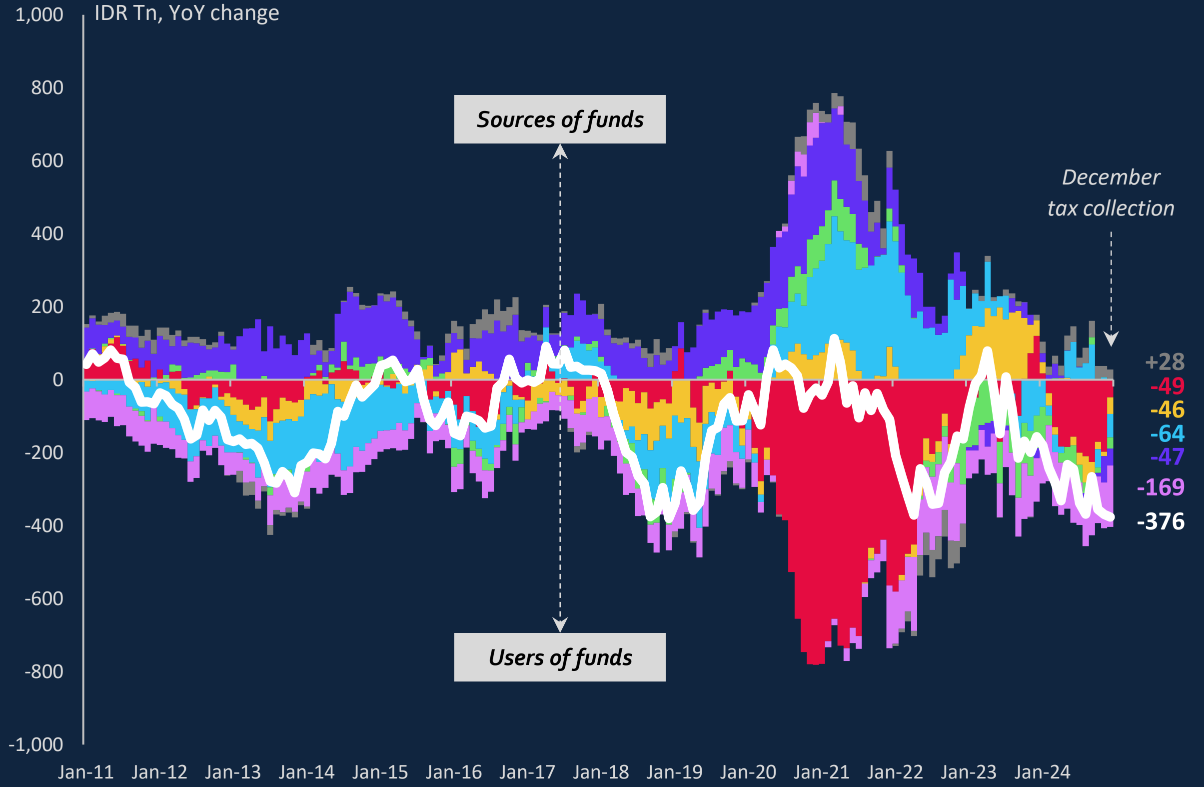
Some relief, but pressure remain

- Our liquidity monitor continues to show borrowing growth (loans and bonds) far in excess of deposit growth within the Indonesian banking system by the end of 2024 *[3]*.
- This deficit in liquidity—or what we call **net bank balance (NBB)**—amounted to -1.70% of GDP, which could be expected to weaken IDR/USD by around 6-8% YoY *[12]*. The fact that the Rupiah only depreciated by 4.4% in 2024 was thanks to SRBI, which attracted IDR 162 Tn (0.73% of GDP) in foreign flows last year.
- Dec-24 showed a large transfer of liquidity from the private sector to the government, which likely corresponded to a push to obtain taxes from low-compliance taxpayers—often called “extra effort”. This boosted MoF’s cash reserves at BI back to nearly IDR 500 Tn *[5]*, despite typically faster government spending at year-end.
- Elsewhere, liquidity among individual account holders continue to worsen, with deposits contracting by 2.1% YoY in 2024. Crowding-out effect due to SBN *[7]* can only be a partial explanation, given the concomitant slowdown in consumer and SME loan growth.
- Bond market conditions actually improved through February, with BI’s 25 bps rate cut in January and the reversal of “Trump trade” pushing down yields along the whole curve *[9]*. Lower SRBI yields nudge bank liquidity towards SBN *[10]*, which—coupled with BI’s purchase—may relieve some of the crowding-out issue.
- Debt ceiling, plus incipient signs of a slowing US economy, might keep yields stable in the near-term. Still, this does not guarantee Rupiah stability, given large equity outflows as well as BI’s limited capacity to issue more SRBI this year *[11]*.
- The only surefire way to stabilize the Rupiah, then, is by reducing domestic spending and thereby improve NBB. The government’s ongoing campaign to cut unnecessary spending might help in this regard, but only temporarily.
- As we know, the rationale behind these efficiency measures is not to reduce public spending *per se*, but to reallocate it towards new programs such as free school meal (MBG). Instead, the authorities now pin their hopes of maintaining the Rupiah on the new export proceeds (DHE) regulations, which we discuss in our ***Special Topic***.

Year-end switcheroo

"Extra effort" to collect taxes in December shifted liquidity from private to public sector, but vast liquidity deficit remains at the national level



- **Private companies had been the main surplus sector in 2024, but became net borrower in Q4 due to stronger loan growth and tax payment ➤ government deficit narrowed temporarily**

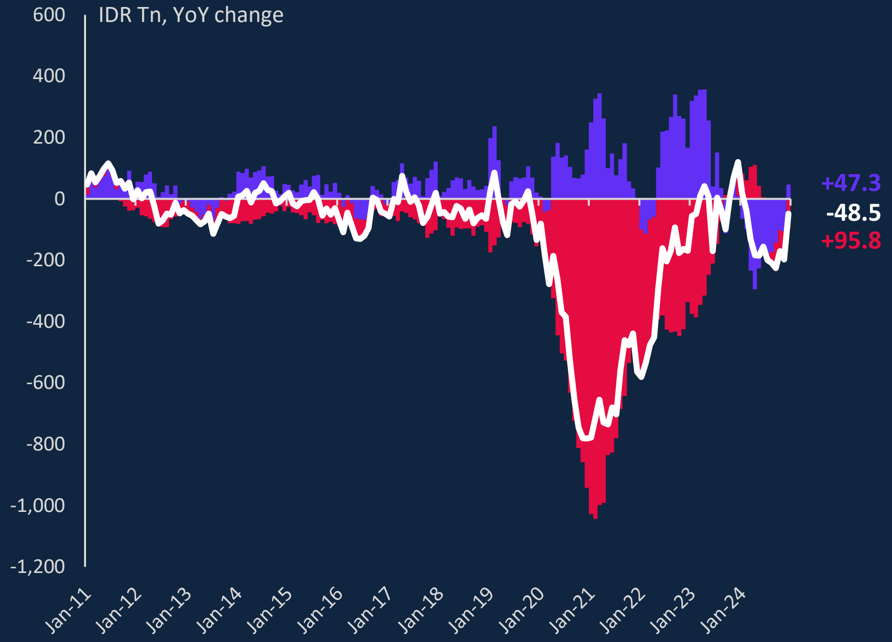
— ***Net bank balance* (NBB), YoY change:**
- Government
- SOEs
- Private corporations
- NBFIs
- Households
- SMEs
- Others (foundations, etc.)

Source: *BI, OJK, MoF, calculations by BCA Economic Research*

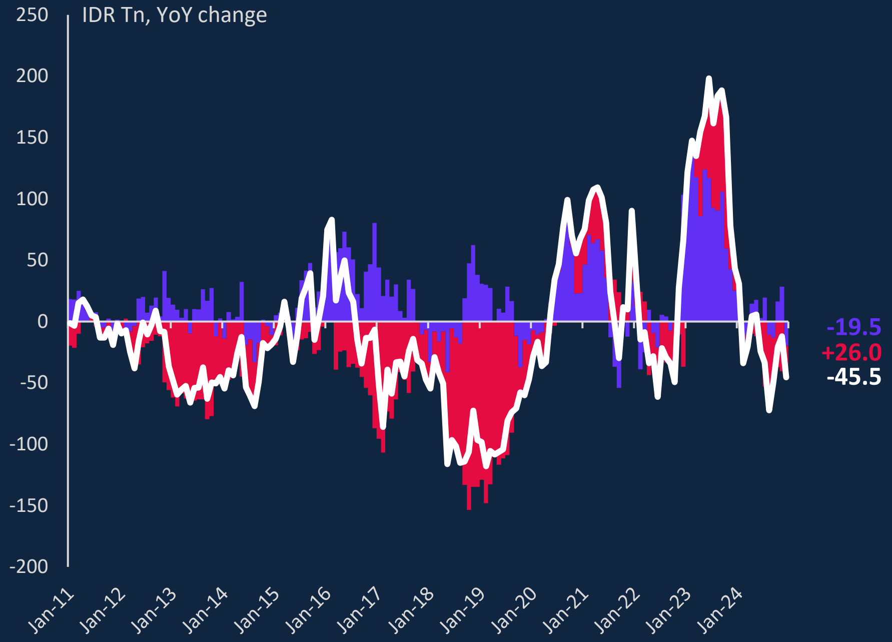
Cash on (one) hand

Government liquidity improved in December, but sluggish cash inflows among SOEs necessitated fresh borrowing

NBB: General government



NBB: SOEs (non-financial)

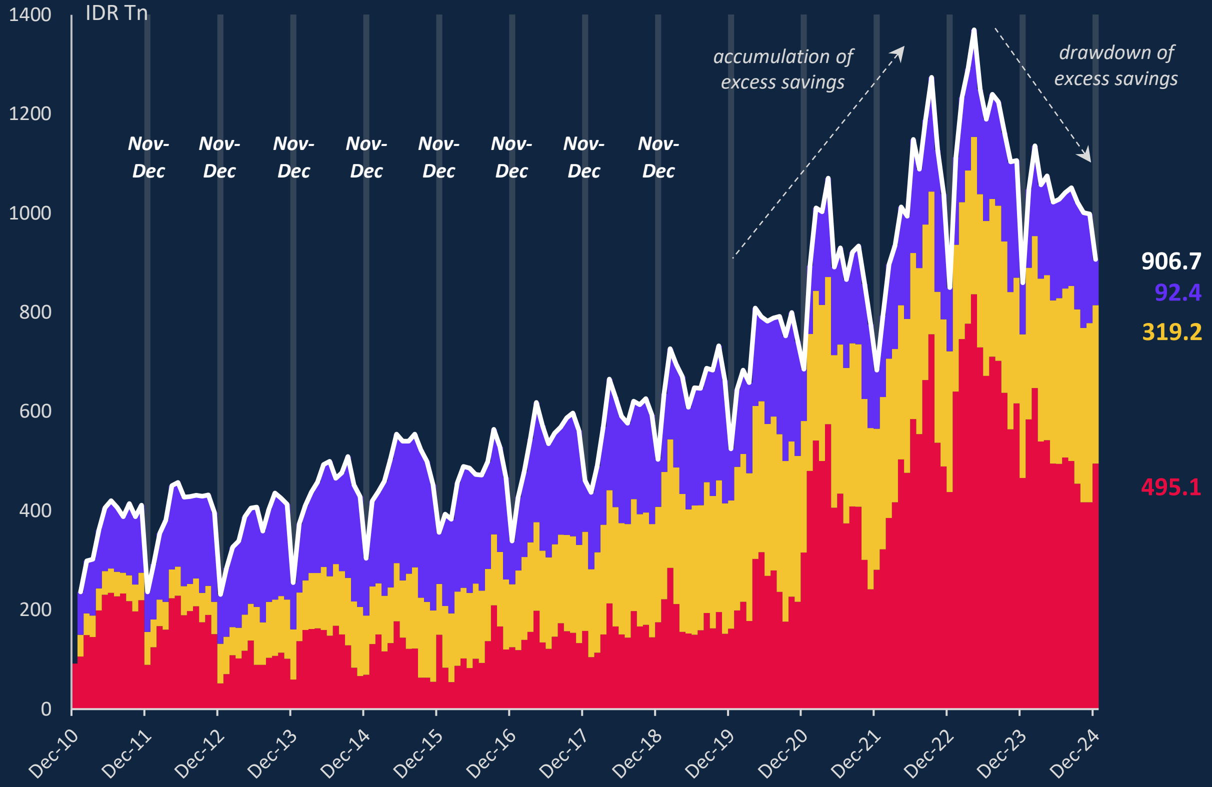


— ***Net bank balance*** **(NBB), YoY change:** ■ **Change in deposits** ■ **Change in loans and bonds**

Source: *BI, OJK, MoF, calculations by BCA Economic Research*

Against the season

Government spending accelerates in year-end as per usual, but the coffers at BI uncharacteristically swelled



- **Excess savings (SAL) at BI had halved since early 2023, as the government tapped it to reduce reliance on SBN issuance …**
- **… but SAL rose again in Dec-24 from taxes ("extra effort") and recent borrowing**

— Gov't deposits, by type:

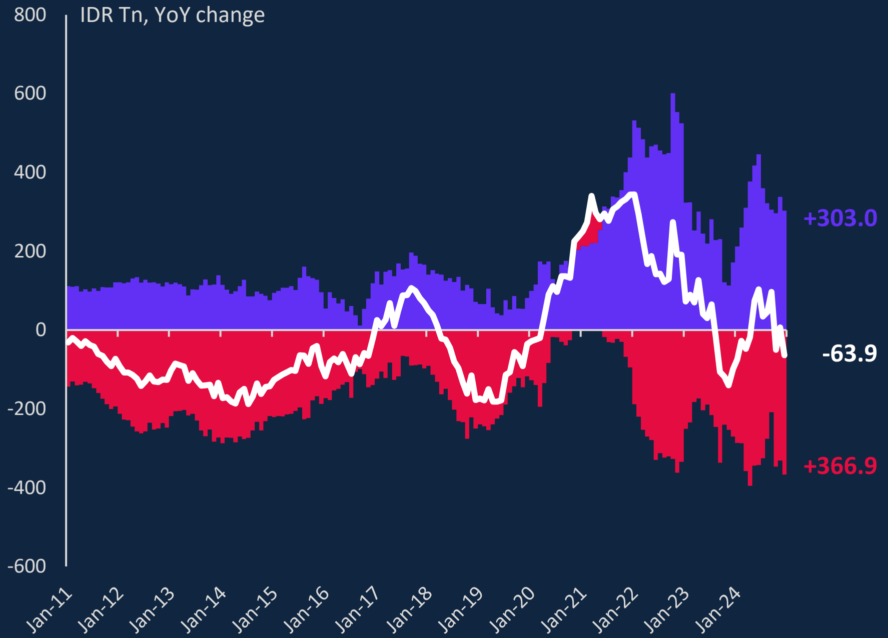
- **Central gov't at BI**
- **Central gov't at commercial banks**
- **Regional gov't at commercial banks**

Source: *BI, calculations by BCA Economic Research*

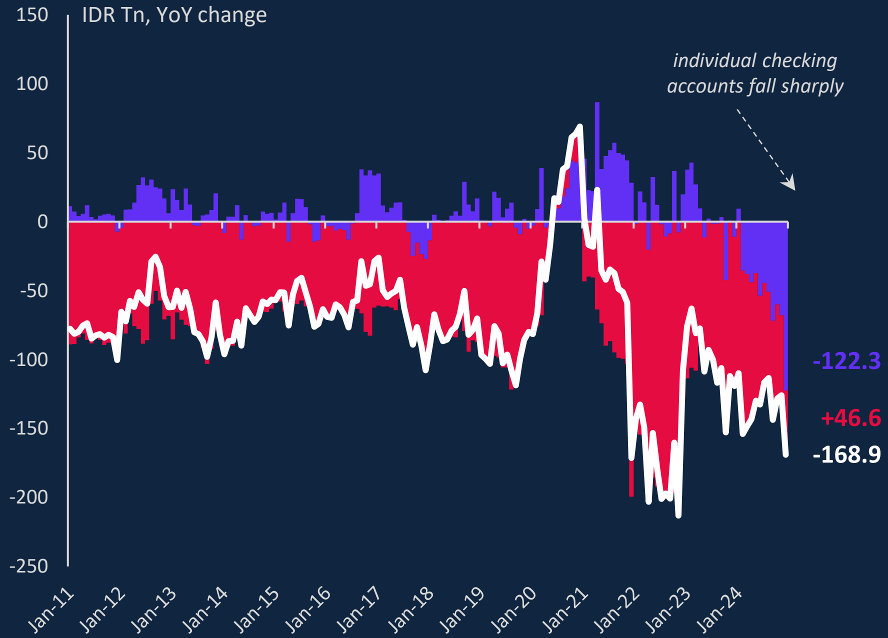
Widening chasm

Larger businesses continue to control large sums of cash, but smaller ones (individual checking accounts) remain on a downward trajectory

NBB: Corporations (non-financial)



NBB: Small-medium enterprises



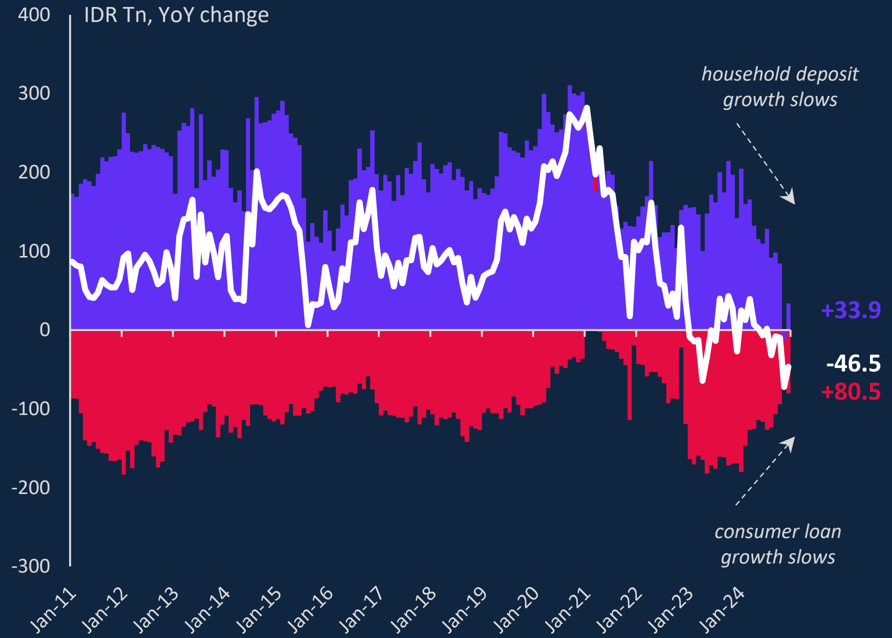
— ***Net bank balance*** **(NBB), YoY change:** **Change in deposits** **Change in loans and bonds**

Source: *BI, OJK, MoF, calculations by BCA Economic Research*

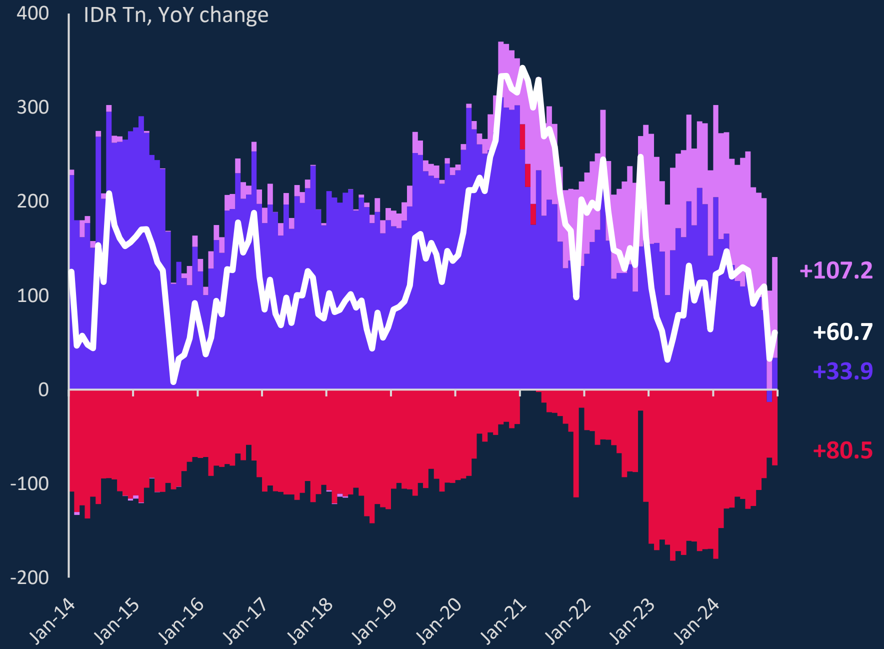
Squeezed on both sides

Consumer saving and borrowing continue to decelerate—with only SBN purchase somewhat ameliorating the picture

NBB: Households



... including gov't bond (SBN) holdings



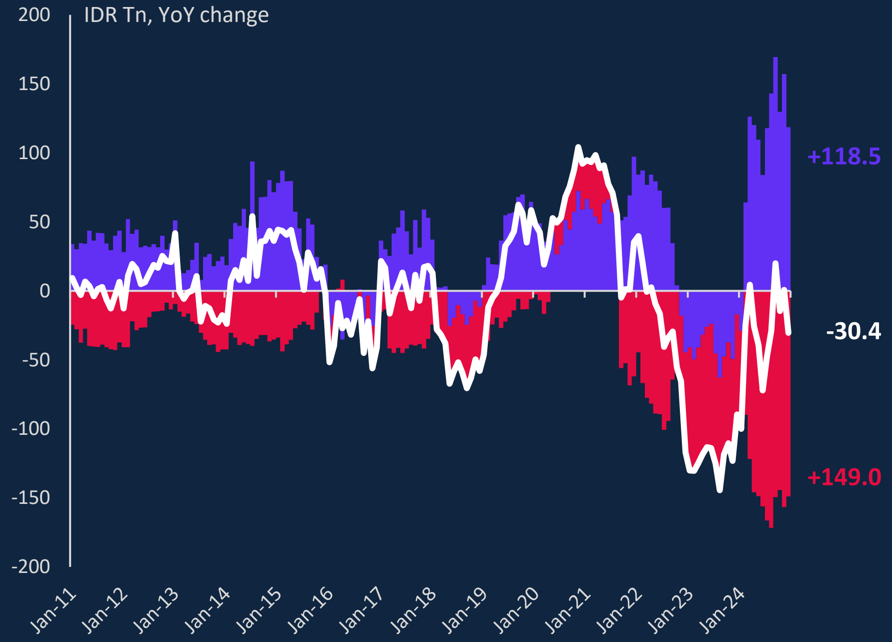
— ***Net bank balance*** **(NBB), YoY change:** ■ Change in deposits ■ Change in SBN ■ Change in loans and bonds

Source: *BI, OJK, MoF, calculations by BCA Economic Research*

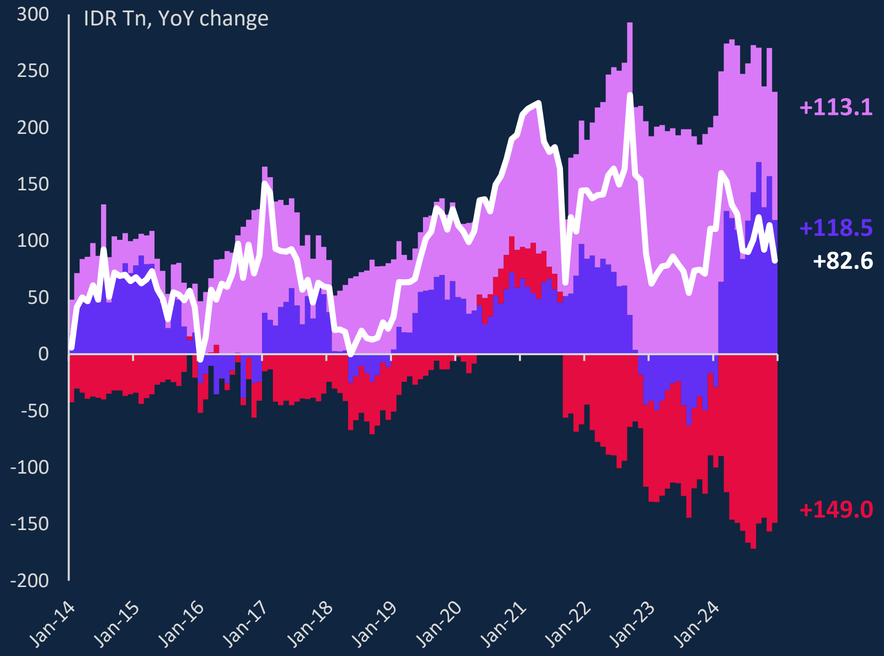
Waiting on the sidelines

NBFIs' cash position has been increasing, as SBN purchase is pared back while lending by VCs and multifinance companies slows

NBB: Non-bank financial institutions



… including gov't bond (SBN) holdings

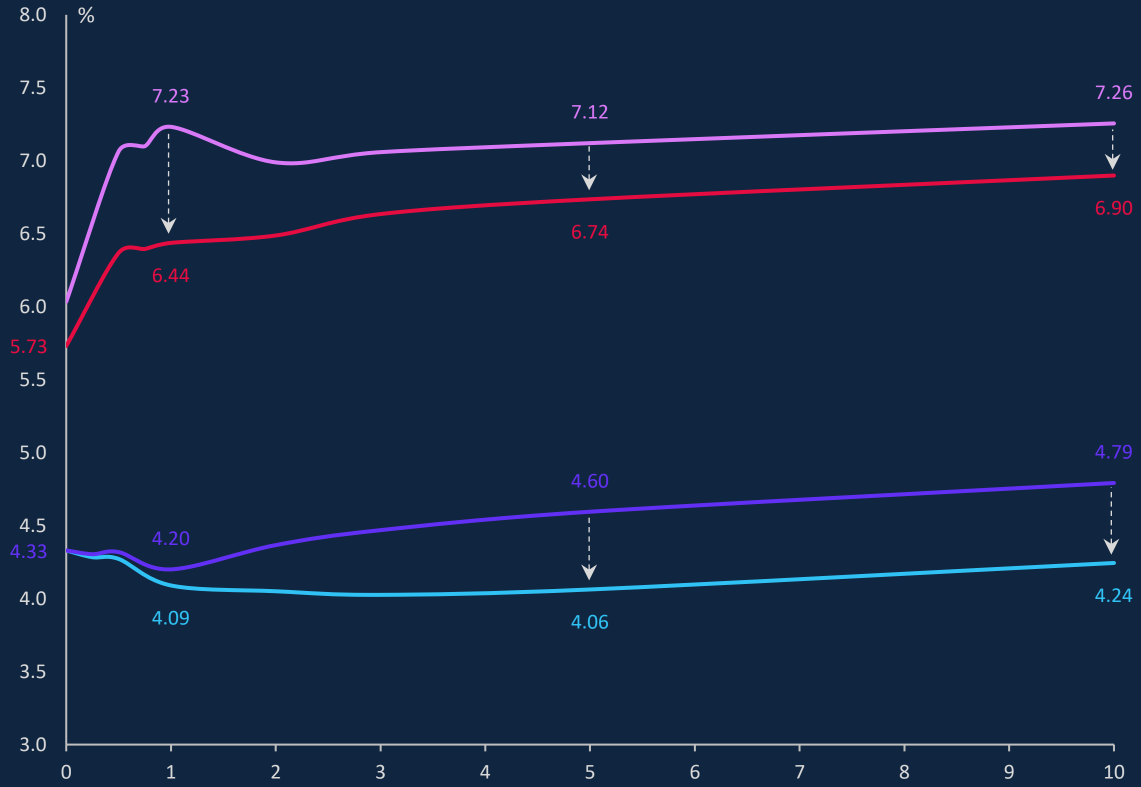


— ***Net bank balance*** **(NBB), YoY change:** ■ **Change in deposits** ■ **Change in SBN** ■ **Change in loans and bonds**

Source: *BI, OJK, MoF, calculations by BCA Economic Research*

Respite for the market

Indonesian yields decline all along the curve, supported by BI rate cut and "bull flattening" in the US



- US yield curve has flattened since Trump inauguration, due to the reversal of "Trump trade" and an expected reduction in coupon issuance—partly due to debt ceiling
- SRBI yields have declined faster than BI Rate (79 bps vs. 25 bps), as less pressure on IDR—and from maturing SRBI—allows BI to reduce issuance

US yield curve:

— Jan 14 — Feb 28

Indonesia yield curve:

— Jan 14 — Feb 28

Source: *Bloomberg, BI, BCA Economic Research*

A healthy rebalancing

Banks shifted back to SBN as SRBI yields decline, while BI's intervention may reduce dependence on households/corporates to absorb new SBN

- **Steeper yield curve has induced banks to move back to SBN, allowing BI's net ownership to fall despite recent interventions in primary & secondary markets**
- **Households-as-net-SBN-sellers is likely to be temporary, prior to recent issuance of ORI-027 (IDR 37.4 Tn)**

Net issuance of tradable SBN, YTD 2024:

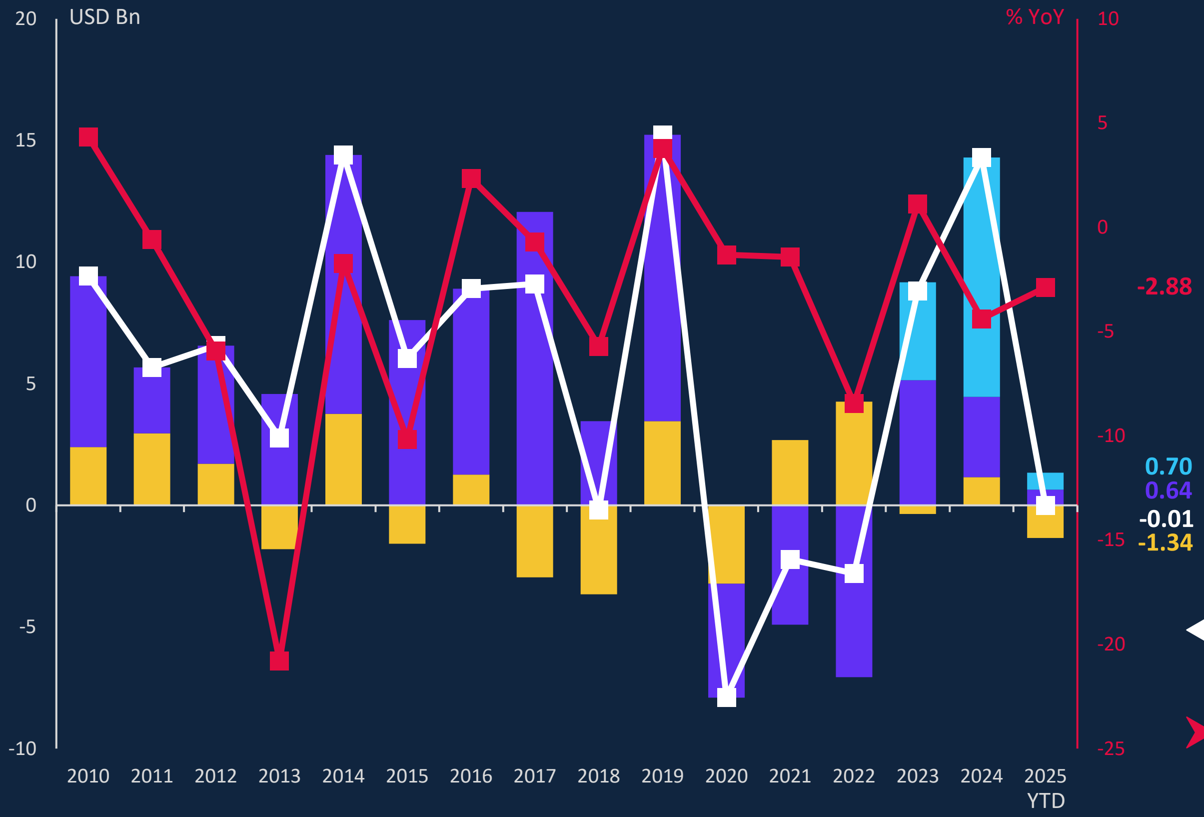
Net buyers

Net sellers

Source: *MoF, BCA Economic Research*

A mixed outcome

The bond market has had a decent start to the year, but it has been offset by outflows from the equity market

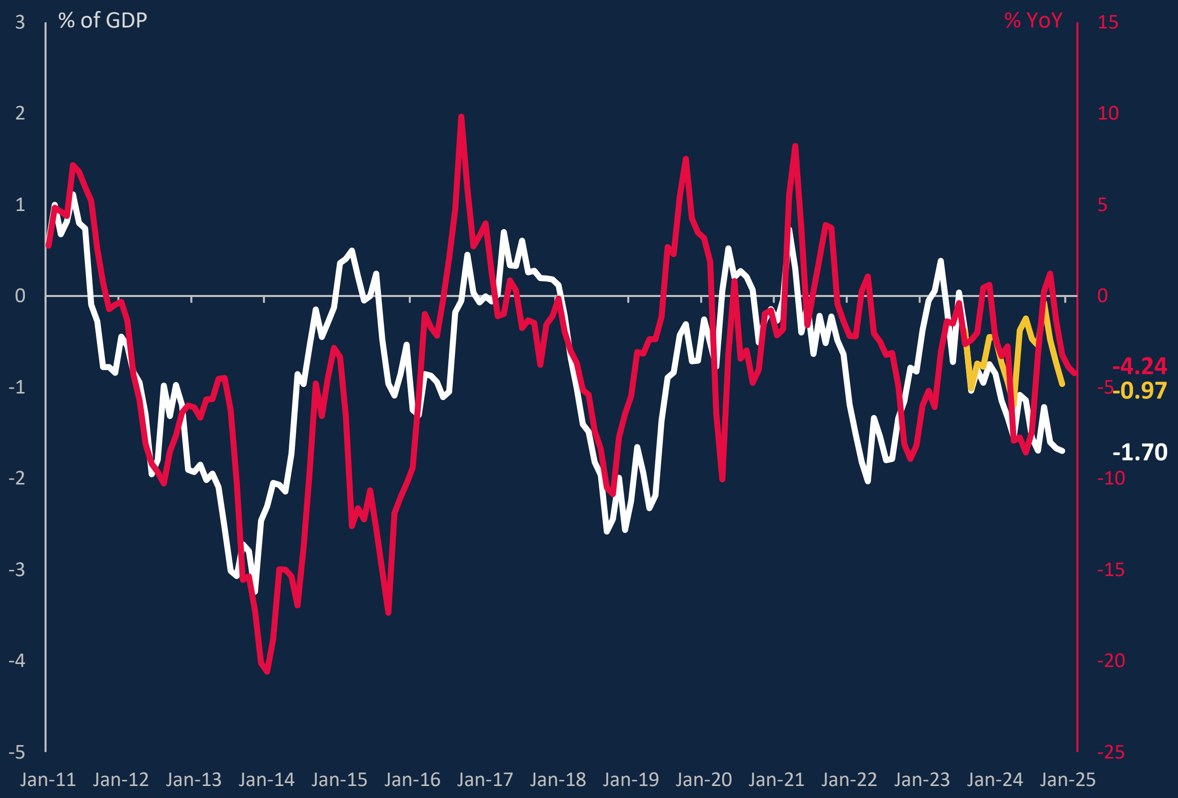


- **The Indonesian stock market saw its largest YTD outflow (up to Feb) on record—roughly double the pace in 2018 and quadruple the pace in 2020**
- **BI's ability to issue new SRBI is limited by bank liquidity, as well as the need to refinance maturing SRBI—especially in May-Jul 2025**

Source: *Bloomberg, BI, calculations by BCA Economic Research*

The new equilibrium, for now

Our model indicates that the Rupiah is correctly valued at around 16,400 to the USD, given current financing deficits



- **Since its January meeting, BI has refrained from explicitly targeting a stronger Rupiah, while also shifting to a more pro-growth stance**
- **Given ambitious government spending target, this probably implies NBB deficit and a certain degree of controlled depreciation of the Rupiah**

◀ *Net bank balance* (NBB), YoY change

◀ NBB plus foreign-owned SRBI

▶ IDR/USD

Source: *BI, OJK, MoF, calculations by BCA Economic Research*

SPECIAL TOPIC

DHE-SDA: Bringing it all back home?

- Starting March 1st, commodity (SDA) exporters are required to put 100% of their export proceeds (DHE) in Indonesia for 12 months—much higher than 30% for 3 months under the previous regulation from 2023.

- This new regulation should not come as a surprise. The authorities have long put their crosshairs on DHE-SDA, in the (justified) belief that a substantial amount of DHE tends to "leak" abroad, and that commodity windfall could have been better utilized as part of BI's defense against Rupiah depreciation.

- Concurrently, the Prabowo government also faces a big financing gap, if it is to realize its lofty ambitions. In a two-pronged attack reminiscent of Pres. Jokowi's first term *[15]*, the government now tries to lever up SOEs' balance sheet—via the Danantara SWF—and to tap funds currently parked outside the Indonesian financial system, including DHE-SDA.

- The public sector can then borrow these fresh funds to finance its projects. Of course, we know from *[12]* that it is *net* liquidity or NBB—saving less borrowing—that matters for the exchange rate. Using DHE-SDA to finance growth necessarily limits its usefulness to defend the Rupiah.

- This **growth-versus-IDR** dilemma *[17]* is crucial to understand the macro impact of DHE-SDA. The regulations allow exporters—who would otherwise be short of working capital—to borrow against their deposits via back-to-back schemes. Likewise, banks can lend the funds to other clients, including importers.

- In practice, then, while the 2023 regulation has been successful in repatriating DHE-SDA *[18]*, it has had limited effect on NBB *[19]*—which naturally reflects savings-investment gap and therefore the current account (CA) balance.

- As such, the regulations do not affect the *net* liquidity flow in/out of Indonesia. Imports and other outflows that would have taken place before can still take place, albeit in a more roundabout way. These are, in other words, **"known money"** *[16]*.

SPECIAL TOPIC

DHE-SDA: *It's all about the (missing) money*

- As such, if BI wants to use DHE-SDA to defend the Rupiah, it must do so by restricting borrowing, e.g. by offering higher rates on its own instruments (TD-DHE, SVBI) so banks are unable to loan the funds. Such restrictions, in turn, can hamper economic activities, which brings us back to the growth-versus-IDR dilemma.

- But the regulations are not entirely futile. For one, it does offer BI more option to support the IDR—albeit at the expense of growth. It also allows the authorities to better keep track of liquidity flows pertaining to exports.

- This last point is critical, as a big chunk of export revenue may not have been correctly reported. Even if we focus on just the "Big-3" of Indonesian commodity exports (coal, CPO, nickel), we can see substantial "leakage" from mis-invoicing and transfer pricing *[20]*, *[21]*, *[22]*.

- The exact amount lost from these shenanigans are not known for sure, but based on available data we estimate a minimum of USD 10-20 Bn per year (about 10-25%) from Big-3 commodities alone.

- These are genuine **"missing money"**, since they are not reported in the official statistics and are not used to finance investment or imports. Repatriation of these funds, then, *would actually improve* the NBB.

- The estimated impact on growth and the Rupiah are visualized in *[24]*. If the new regulation targets only "known money", there is no change in the growth-versus-IDR tradeoff: a stronger Rupiah is only achieved by sacrificing growth, and vice versa.

- Targeting "missing money", however, would shift the tradeoff for the better. In our estimate, an aggressive pursuit of these leakage would improve the NBB by up to 2% of GDP—and strengthen the IDR by ~500 points to the USD given a similar GDP growth rate.

- As a candidate, Pres. Prabowo often spoke about "leakages" that rob Indonesia of rightful earnings from its natural riches. Now as President, he has the chance to rectify this by cracking down on mis-invoicing, transfer pricing, and similar practices. The effort to bring home DHE-SDA should not stop at mere "known money".

Hunting high and low

Presidents Jokowi and Prabowo both face difficulties in financing their agendas through the State Budget, prompting the use of extra-fiscal means

	Jokowinomics (1st term)	*Prabowonomics*
Fiscal expansion	• Raised gov't CAPEX by 46% during first year in power (2015), financed partly by slashing fuel subsidies • But: Revenue fell as commodity prices declined; **tax/GDP ratio stagnated below 11%**	• Before taking office: Plan to enlarge fiscal deficit/debt levels scrapped following **adverse market reaction** • Planned to raise tax/GDP ratio to 23% ➤ **scaled back** to 18% fiscal revenue/GDP • Pivoting to budget cuts to support priority programs
Levering up SOEs	• Gov't capital injection (IDR 283 Tn during 2015-19) and asset revaluation to boost equity levels … • … which then enabled more borrowing by SOEs: domestic (+IDR 250 Bn) and external (+USD 15.4 Bn)	• Establishing BPI Danantara as super-holding of SOEs • Targeting a reallocation of USD 20 Bn/yr from State Budget, to be injected as equity to Danantara • Attracting foreign co-investment and loans, targeting Danantara's asset to grow by USD 120-160 Bn/yr
Tapping money parked outside the system	• Tax amnesty (2016-17), which netted IDR 130 Tn in penalties plus added around IDR 90 Tn in deposits from repatriated funds	• Requiring export receipts (DHE) from commodities (SDA) to be 100% repatriated for a period of 12 mths, expected to bring the remaining 70% that has not been repatriated ➤ around USD 50 Bn • Bullion bank to monetize domestic gold holdings (estimated at 1800 tons)

Department of lost and found

Repatriation targets export proceeds (DHE-SDA) that are already reported, but there could be more that goes unreported

"KNOWN MONEY"

Before Aug 2023 (PP 36/2023)

- DHE must be received in a special account (*Reksus*) in an Indonesian bank
- The funds can subsequently be freely transferred abroad (does not have to stay in the Indonesian financial system)

- Already recorded in official exports and BoP statistics
- Repatriation requirement does not limit usage of funds for imports/others
- Greater deposits offset by greater borrowing ➤ no effect on net liquidity (NBB) or current account (CA)

After Aug 2023

- For DHE-SDA valued above USD 250k, 30% (now 100%) has to be kept within the Indonesian financial system for a period of 3 months (now 12 months)
- Other than banks, BI provides options (TD-DHE, SVBI) to maintain DHE-SDA, often at higher rates to compete with foreign banks
- Multiple options to utilize the funds:
  - Back-to-back loans for the DHE-SDA account holders
  - Banks can lend out the deposits to other clients (including IDR loans, via FX swap with BI)

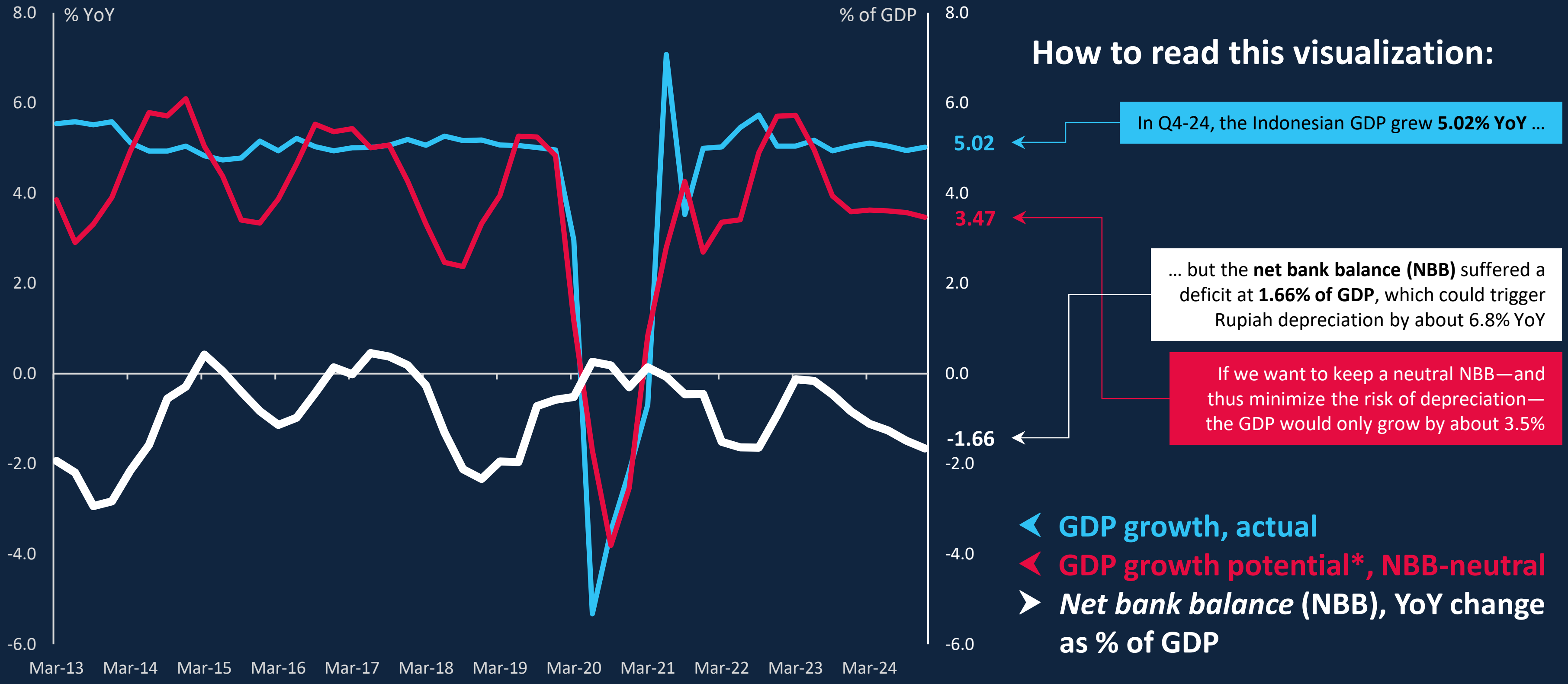
"MISSING MONEY" (ILLICIT OUTFLOWS)

- Exporters can try to evade monitoring/ regulations by underreporting DHE
- Potential methods:
  - Mis-invoicing (export values are understated versus actual)
  - Transfer pricing
  - Breaking down exports into several invoices valued less than USD 250k (to evade recent regulations)

- Funds are not recorded in official statistics and outside of Indonesian financial system
- Identification and repatriation can improve NBB or CA

Growth vs. exchange rate: The ultimate tradeoff

Indonesia's growth potential may best be seen in terms of financing constraint—and therefore the risk of Rupiah depreciation

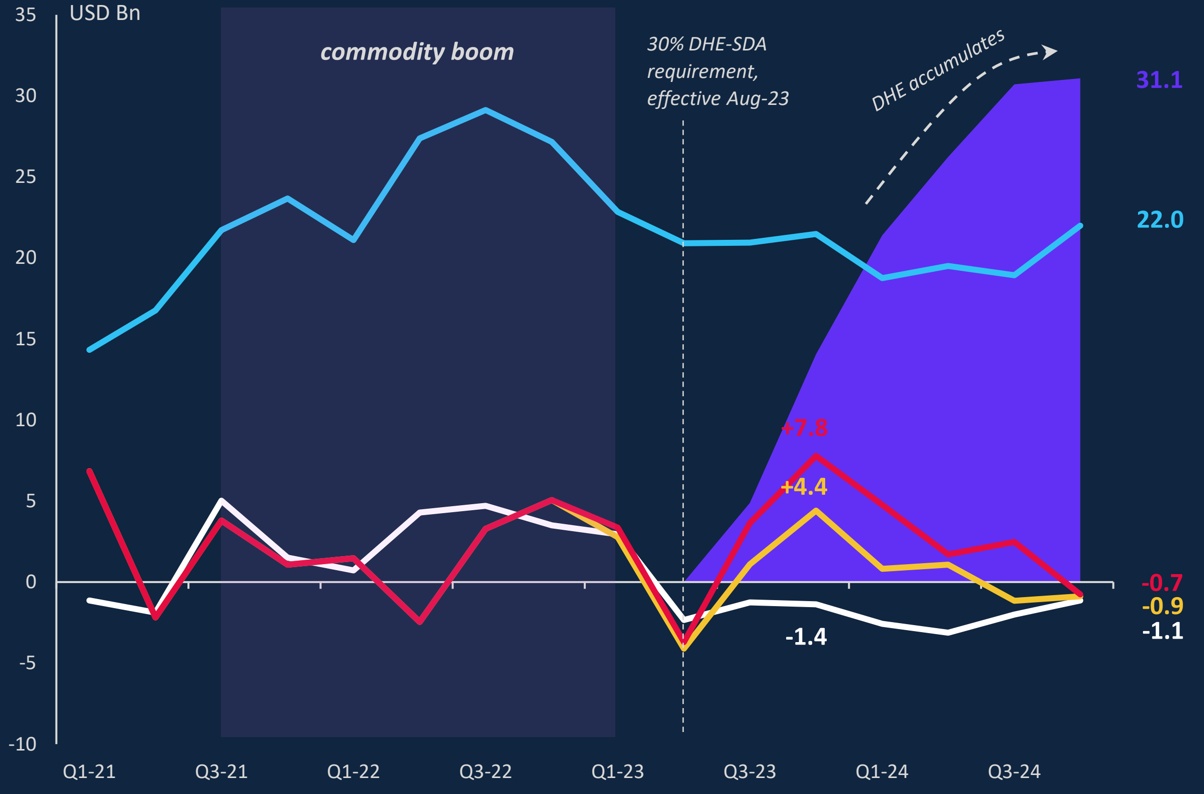


Source: *BI, OJK, MoF, BPS, calculations by BCA Economic Research*

** estimated using error-correction model*

DHE requirement: A successful policy ...

The 30% DHE regulation has significantly boosted domestic FX deposits—and corresponding placements at BI—above its baseline (i.e. CA balance)



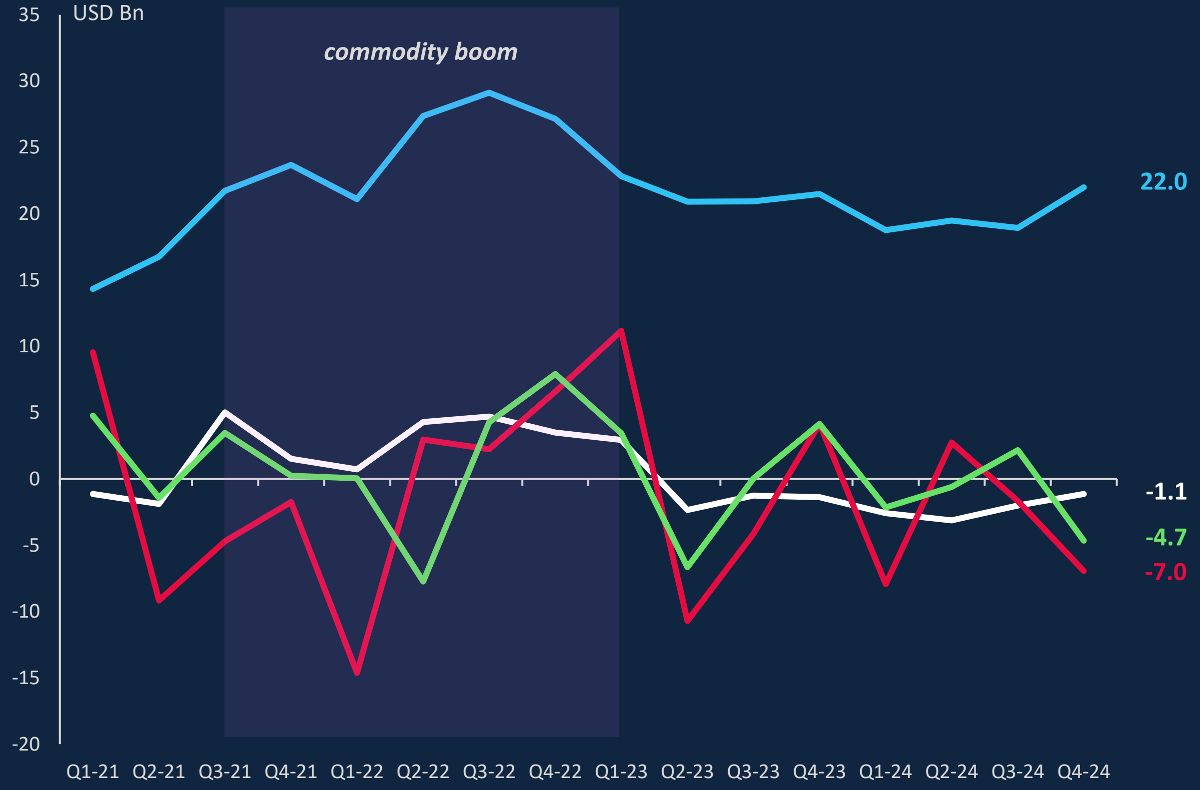
- **Our rough estimate of DHE-SDA placement—at USD 31.1 Bn, or <u>39.3%</u> of "Big-3" commodity exports—aligns closely with the government's numbers (<u>37-42%</u> of DHE-SDA)**

— Big-3 commodity exports *(coal, CPO, ferronickel)*
— Current account balance
— Domestic banks' FX deposit growth
— FX deposit growth + TD-DHE + SVBI/SUVBI + FX swaps
■ Est. accumulation of DHE (= red minus white)

Source: *BI, OJK, BPS, calculations by BCA Economic Research*

... but it does not improve net liquidity (NBB)

DHE regulation has had virtually no impact on NBB, which continues to track the CA balance (or, in other words, the saving-investment gap)



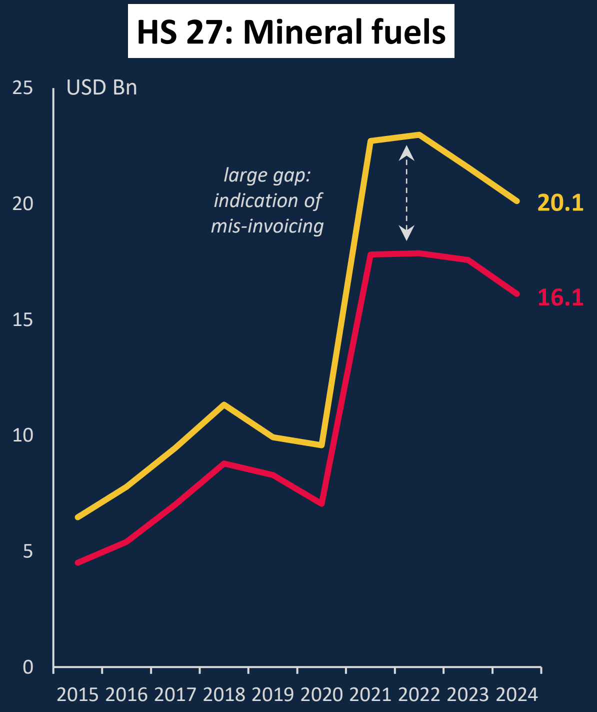
- **The need to finance imports and other expenses necessitates more borrowing ➤ NBB aligns with CA balance**
- **Adding just the "known money" does little to change the growth-versus-IDR dilemma**

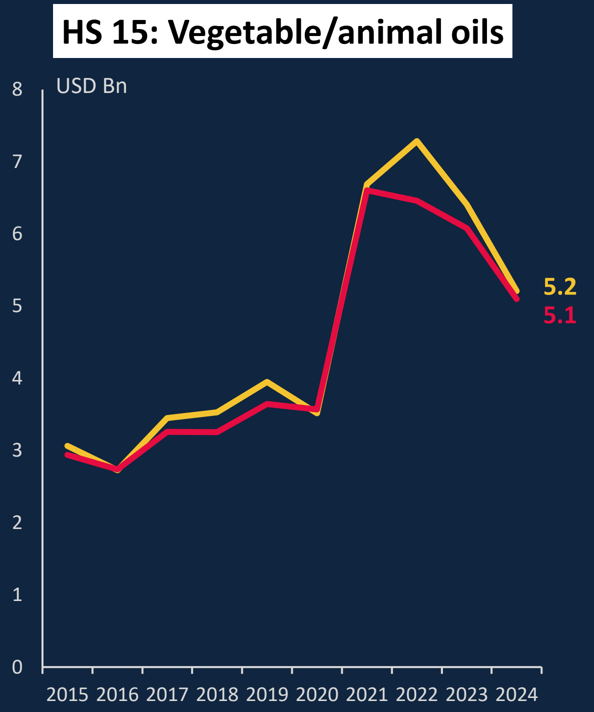
— **Big-3 commodity exports** *(coal, CPO, ferronickel)*
— **Current account balance**
— ***Net bank balance* (NBB) YoY, FX only (= FX depo – FX loans)**
— ***Net bank balance* (NBB) YoY, IDR + FX (= page 3)**

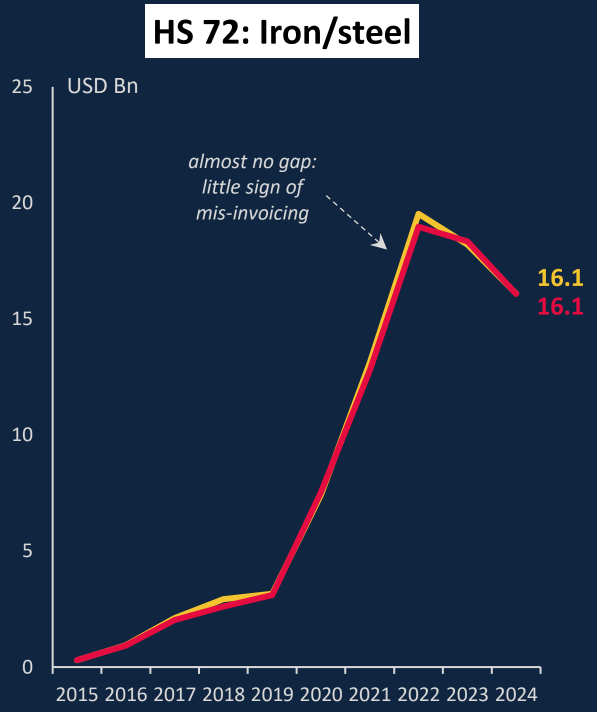
Source: *BI, OJK, BPS, calculations by BCA Economic Research*

Missing money #1: Export mis-invoicing

The value of Indonesian exports to China are often significantly underreported compared to Chinese customs data







Indonesian exports to China: — Based on Chinese customs data — Based on Indonesian customs data

Source: *ITC, calculations by BCA Economic Research*

Missing money #1: More mis-invoicing data

With few exceptions, export of "Big-3" commodities to Asian countries shows indications of systemic mis-invoicing

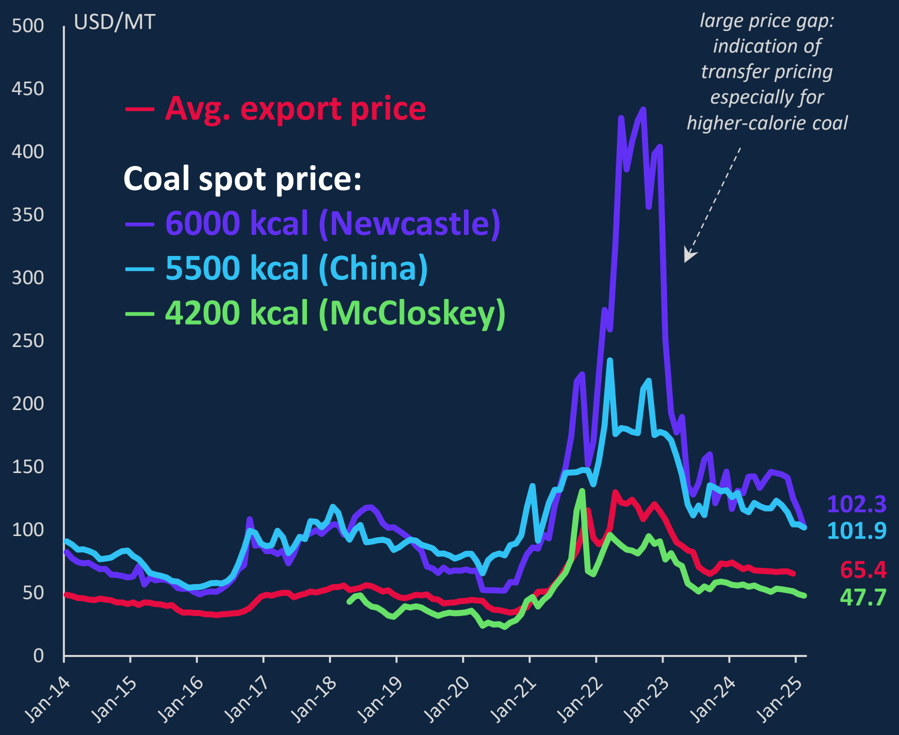
Export destination	HS 27: Mineral fuels		HS 15: Vegetable/animal oils		HS 72: Iron/steel	
	Customs data gap (2020-24)		Customs data gap (2020-24)		Customs data gap (2020-24)	
	%	Avg. nominal loss (USD Mn/yr)	%	Avg. nominal loss (USD Mn/yr)	%	Avg. nominal loss (USD Mn/yr)
Singapore	**-1.9%**	**-69.3**	**14.6%**	**34.6**	**20.4%**	**13.2**
Malaysia	**-6.5%**	**-251.7**	**7.0%**	**122.9**	**9.1%**	**57.8**
Thailand	**22.5%**	**634.4**	**3.8%**	**3.5**	**9.4%**	**26.1**
Vietnam	**25.2%**	**383.0**	**7.7%**	**53.7**	**4.5%**	**35.3**
China	**21.2%**	**4,113.9**	**4.5%**	**259.3**	**0.9%**	**129.5**
Korea	**19.7%**	**859.4**	**14.3%**	**57.1**	**9.2%**	**49.2**
Japan	**16.4%**	**1,076.9**	**10.6%**	**24.3**	**18.5%**	**5.8**
India	**26.8%**	**2,411.1**	**8.2%**	**365.4**	**6.9%**	**79.9**

Source: *ITC, calculations by BCA Economic Research*

Missing money #2: Transfer pricing

Understating the price of exported commodities—often via shell companies abroad—is another way to illicitly park export revenues abroad

Coal (HS 27011900)

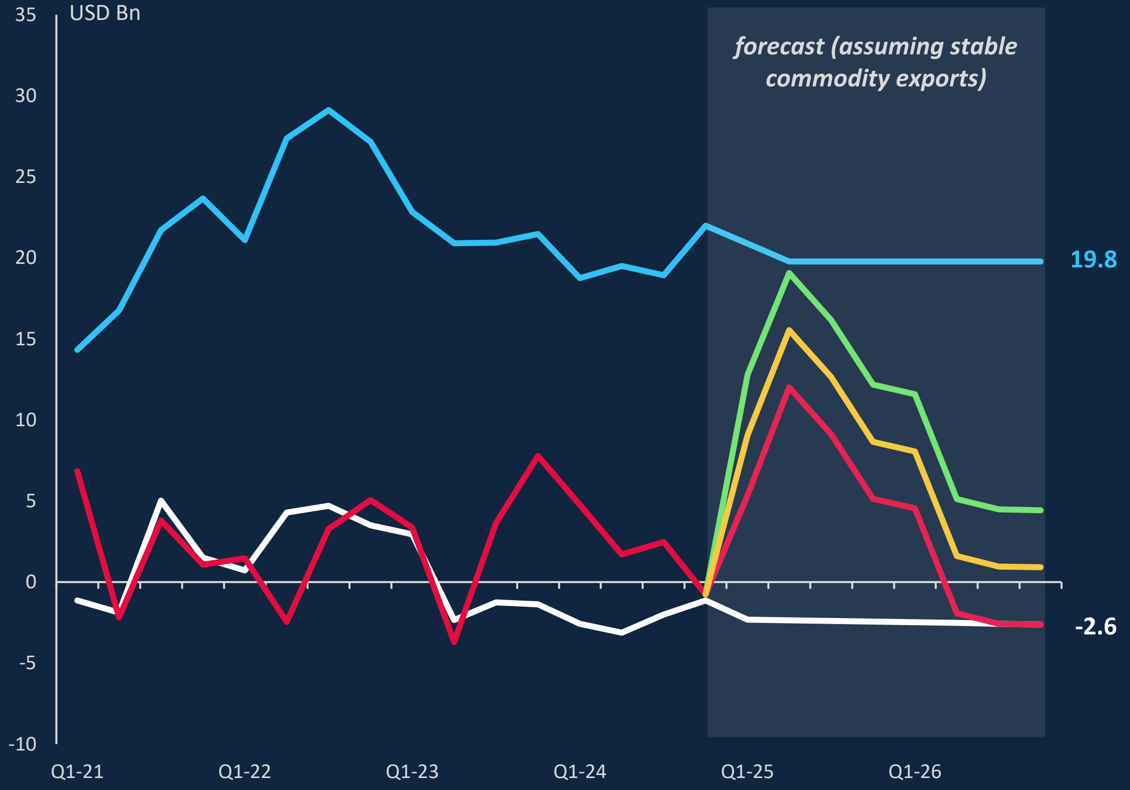


CPO (HS 15111000)

Source: *BPS, Bloomberg, calculations by BCA Economic Research*

Large wave of liquidity incoming ...

The 100% DHE regulation could bring in about USD 50 Bn in FX liquidity, and potentially more if the “missing money” is aggressively pursued



- We estimate mis-invoicing to add an extra 10-20% to commodity export value, plus another 20-40% due to transfer pricing specifically for coal
- Repatriation of “missing money” could improve NBB by approximately 1-2% of GDP for the long-haul

— Big-3 commodity exports *(coal, CPO, ferronickel)*

— Current account balance *(baseline)*

FX deposit* growth, scenario:

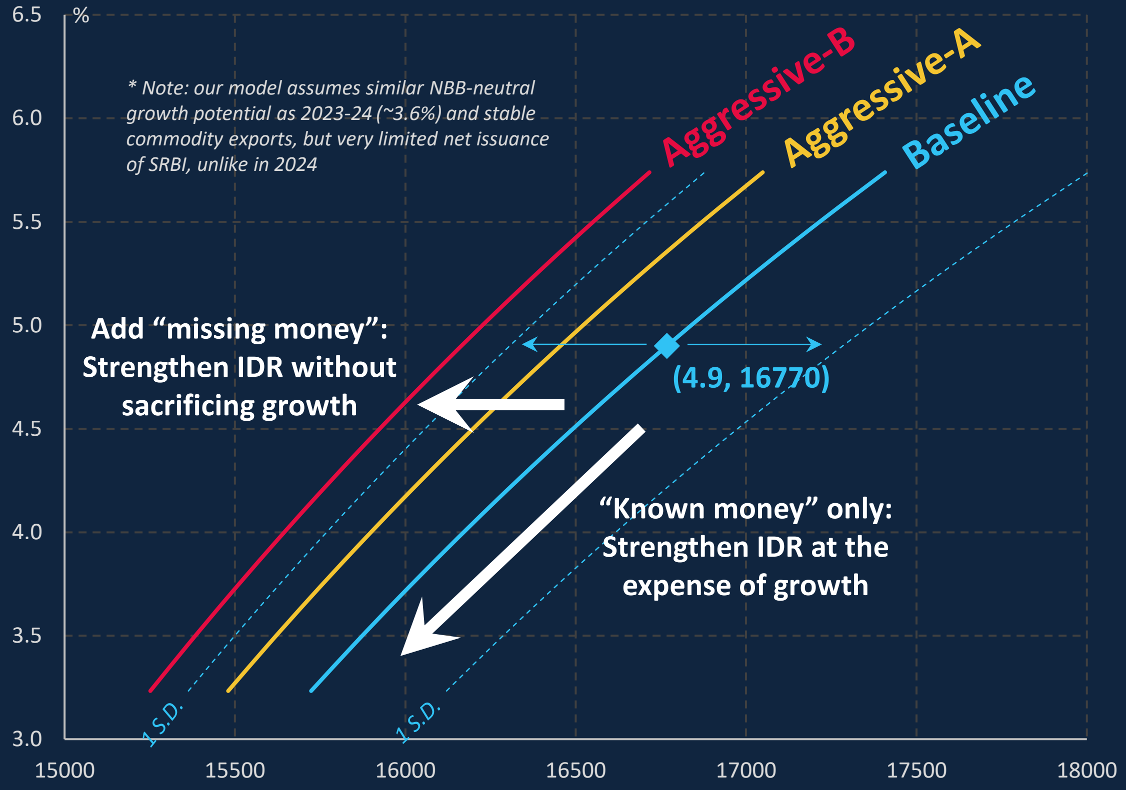
1. Baseline *(no missing money)*
2. Aggressive-A *(missing money-LOW)*
3. Aggressive-B *(missing money-HIGH)*

Source: *BI, OJK, BPS, calculations by BCA Economic Research*

** including placements at BI (TD-DHE, SVBI, FX swaps)*

... but it may or may not be a game changer

Repatriation of "missing money" should improve Indonesia's growth-versus-IDR tradeoff, but getting only "known money" may not do so



- "Known money"-only: To strengthen the Rupiah, BI will have to restrict the use/borrowing of DHE-SDA ➤ thereby constricting growth
- "Missing money" will be a genuine addition of liquidity ➤ allows either the Rupiah to strengthen or the public/private sector to borrow more and therefore boost growth

(y-axis)
GDP growth (projected, 2025)

(x-axis)
USD/IDR
(projected, 2025 avg.)

Source: *Modeling by BCA Economic Research, based on data from BI, OJK, MoF, BPS, Bloomberg*

Projection of Indonesian economic indicators

	2019	2020	2021	2022	2023	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	7.0	7.6
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5005
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.5
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	6.97	7.47
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,887
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.2
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.9

Notes:
- *USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time*
- *Numbers marked with (#) for 2024 are final; other numbers for 2024 are our projections*

BCA Economic and Industry Research

David E. Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext: 1051352

Agus Salim Hardjodinoto
Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia
Head of Macroeconomic Research
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas
Head of Banking Research and Analytics
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Keely Julia Hasim
Economist / Analyst
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

Elbert Timothy Lasiman
Data Analyst
elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1074310

Thierris Nora Kusuma
Economist / Analyst
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

Nicholas Husni
Economist / Analyst
nicholas_husni@bca.co.id
+6221 2358 8000 Ext: 1079839

Samuel Theophilus Artha
Economist / Analyst
samuel_artha@bca.co.id
+6221 2358 8000 Ext: 1080373

PT Bank Central Asia Tbk

Economic & Industry Research of BCA Group
20th 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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