Listening to the same tune in two sessions

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Summary

- The Chinese government maintain its ambitious growth target in 2025, targeting a sizable increase in domestic consumption as the economy seeks to maintain its growth momentum despite unfavourable external conditions.
- Despite the strong signal, the higher deficit target may reflect the central government's need to take on a greater role in financing, given regional governments' now-limited fiscal capacity.
- Investments may remain China's primary growth engine, as the central government continues to rely on the trickle-down effect from higher production activities to boost consumption.

- The Indonesian financial market performed admirably over the past week, at least relative to what happened so far in 2025. The Rupiah, for instance, strengthened to IDR 16,295/USD (1.12% WoW) as the market closed on Friday, with USD 338.2 Mn in foreign inflows into the SBN market helping to provide the lifting. Despite the reported outflows from the SRBI market, Bank Indonesia also continue to lower the de facto short-term interest rate (12M SRBI yield) by around 18.5 bps MoM to 6.46%, although we maintain that the robust domestic demand for debt securities (and even equities) may be a symptom of lower demand for more productive investments.
- The relatively serene condition in Indonesia is even more compelling when compared to the global context. The fracturing trans-Atlantic defence cooperation has led Germany and other European countries to signal increased spending, driving a defence stocks-led rally in the European stock market. Meanwhile, US President Trump's habitual about-face on his trade policies continues to fan uncertainties in the world's biggest economy, as indicated by the significant uptick in the VIX index over the past week.

Consumption: Relying on the same tool

- In contrast, news coming out of China seems to be more positive, especially regarding its "two sessions" of NPC[1]'s and CPPCC[2]'s annual plenary meetings. **China has maintained its 2025 growth target at 5.0% YoY, a notable goal given the sheer scale of its economy and the currently unfavourable global setting.** What stands out, however, is the decision to lower the inflation

[1] National People's Congress. China's highest legislative body, similar to the DPR in Indonesia.

[2] The Chinese People's Political Consultative Conference. The Chinese communist party's political consultative body.

target from 3% to 2% while raising the fiscal deficit target to 4% ***(see Chart 1)***, signalling Chinese authorities' apparent recognition of the urgent need to stimulate domestic demand as well as a message that the Chinese growth model will endure despite the US government's constant haranguing.

- **Global macro analysts have long called for China to seek a pivot towards a more consumer-driven growth model, which would arguably provide a more sustainable boost for both the Chinese and global economies while helping to rebalance the global supply chain.** Policy signals from Chinese authorities seem to be delivering promising results in favour of this call, with the 10Y China bond yield shot up to its 3-month high of 1.86% following reports from the Two Sessions. Meanwhile, the demand for productive loans seems to have shifted to domestic-oriented sectors (such as services) by the end of last year, while loans to the manufacturing sector continue to slow down ***(see Chart 2)***.

"The Chinese government may continue to rely on supply-side interventions, rather than more direct programme to boost purchasing power "

- Alas, the bubbling "consumption with Chinese characteristics" expectation seems to have popped (or at least deflated) at the moment. China's imports tumbled by 8.4% YoY in January-February 2025, signalling weak demand despite rosy sentiments earlier. The still-going deflationary pressure – with CPI inflation clocked at -0.7% YoY in February 2025 – further highlights the challenge facing Chinese authorities in hitting its inflation and growth target.

- Despite the signalled higher deficits and debt issuance, the true scale of public sector support for the economy remains uncertain. While the central government is ready to break the bank, years of subnormal investment returns and overstretched balance sheets have weakened regional governments' financing capacity – to the point that the central government was compelled to introduce a debt swap programme (local governments or LGFVs' bonds are swapped with China government bonds) last year to ease the problem with local government debt.

- **Hence, the true scale of China's public sector spending may prove to be less significant than more bullish analysts now expected, as the responsibility to put up the financing required to hit the 5% GDP growth target will shift from overstretched local governments to the fiscally stronger central government *(see Chart 3)***. Indeed, northeastern provinces such as Liaoning, Jilin, and Heilongjiang are reported to set <5% growth target for 2025, a product of their having to operate under a hard-budget constraint.

- Unfortunately, there is also a question of how the central government will seek to boost domestic demand. **A document released last Friday outlined the central government's continued reliance on supply-side interventions, with job creation and the resulting income growth used as justification to support productive sectors.** The arguably more direct consumption stimuli, such as the trade-in programme, also appear to be more of a scheme to ensure stable demand for sectors favoured by the government (such as EV manufacturing) rather than a broad effort to improve household purchasing power.

Investment: Same tool, different target?

- While policies such as raising farmers' pension payments may help boost purchasing power, the impact may be limited to China's shrinking population. **It is safe to say, then, that China's growth model may not change significantly in 2025, with investments continuing to play the most prominent role.** However, given the escalating trade war, channelling the money hose primarily to the globally scrutinised manufacturing sector may invite reciprocal actions, while the already significant oversupply problem means that it might be better for China to invest elsewhere.
- Interestingly, reports following the "Two Sessions" do not indicate that the central government is prepared to provide more support for the property sector, which continues to decline despite last year's creation of the "whitelist" of construction projects slated for completion ***(see Chart 4)***. The central government's wariness over rampant speculation in the property market is reported to run deep, which may explain their squeamishness in directing more investment to the sector. Launching another infrastructure project may be a more palatable option for the central government to push investments, given regional governments' hard budget constraints and the oversupply-plus-trade-war double trouble facing its manufacturing sector.
- Another round of infrastructure initiatives may help stabilise the global mineral market, including the market for nickel and its derivative products which are increasingly dominated by Indonesian producers. Alas, this scenario does not appear to be too certain. China has ushered in a new approach to its belt-and-road investments, opting for "small" (modest in size) and "beautiful" (the project should highlight China's commitment to green investment with minimal financing risks) criteria when selecting projects overseas. **This approach may also be adopted domestically, making a "project of the century"-scale infrastructure initiatives – one that would significantly drive demand for steel and other mineral products – less favoured than before.**
- Fortunately, China's difficulty in shifting away from its investment-driven growth model may benefit Indonesia in more than one way. **If not from China's domestic investment boom, Indonesia may benefit from the surge in China's relocation investments, as more Chinese manufacturers look to shift production to third countries to circumvent the trade war.** Indeed, the Indonesian economy will be hoping for a continuous FDI inflow from China, which will help to stultify the increasingly palpable informality problem in the economy. The risk, however, is that more Chinese investments may not really improve Indonesia's CNY deficit problem in the short term, given the rising dividends and remittance payments to China that often follow.

"Indonesia may continue to benefit from the stream of China's FDI, but higher investments may not solve the deepening CNY deficit problem"

Chart 1

Big spenders

The Chinese government has been spending beyond their fiscal deficit target in the past decade, highlighting the challenge in solving China's problem with underconsumption

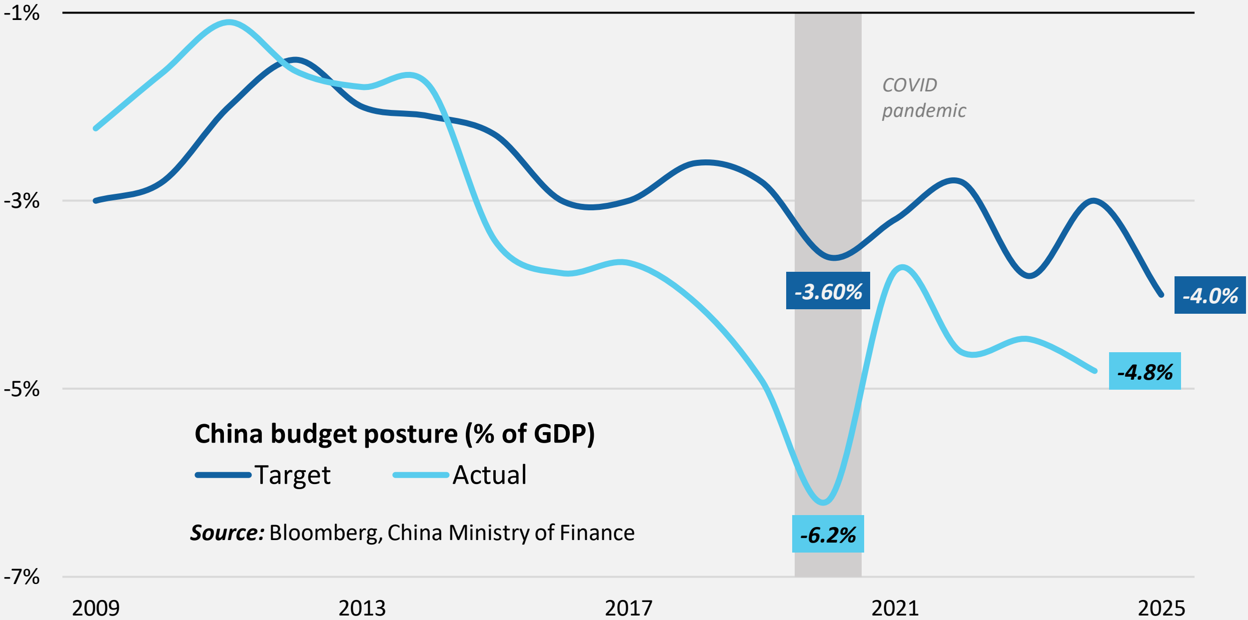


Chart 2

First step in a journey of thousand miles

Loan growth for domestic-oriented sectors is accelerating relative to others, but it is still too early to expect China to pivot towards a consumer-driven economic model

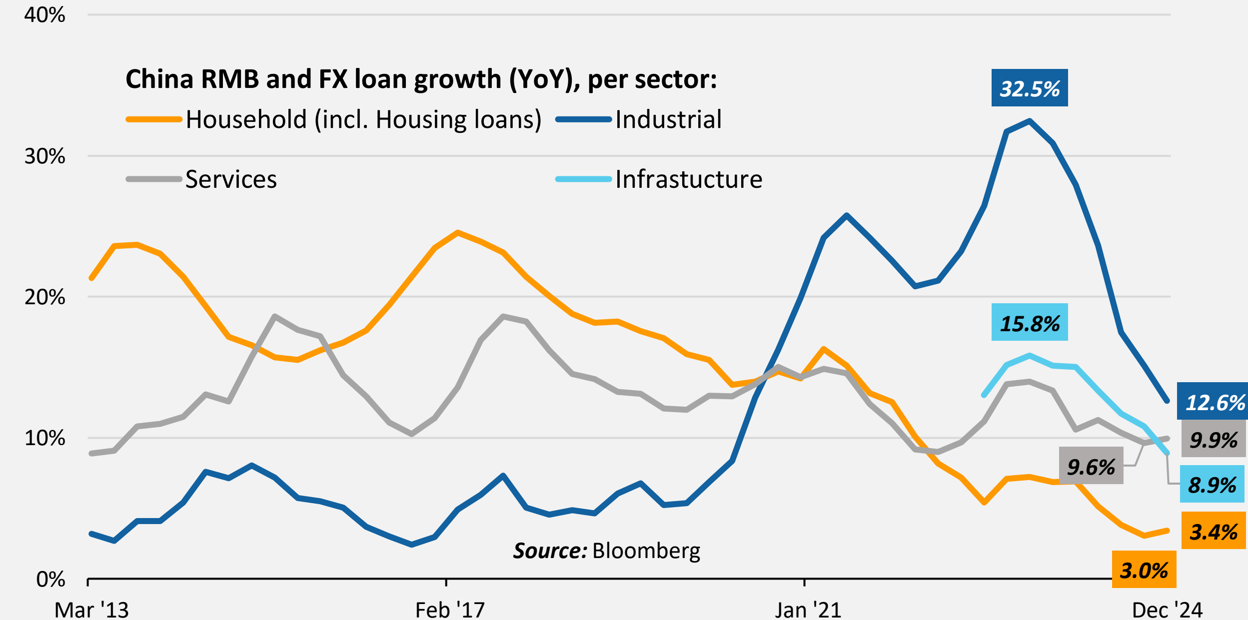


Chart 3

Those who can, borrow

The high growth target necessitates the central government to open its balance sheet, given the limited fiscal space for local governments.

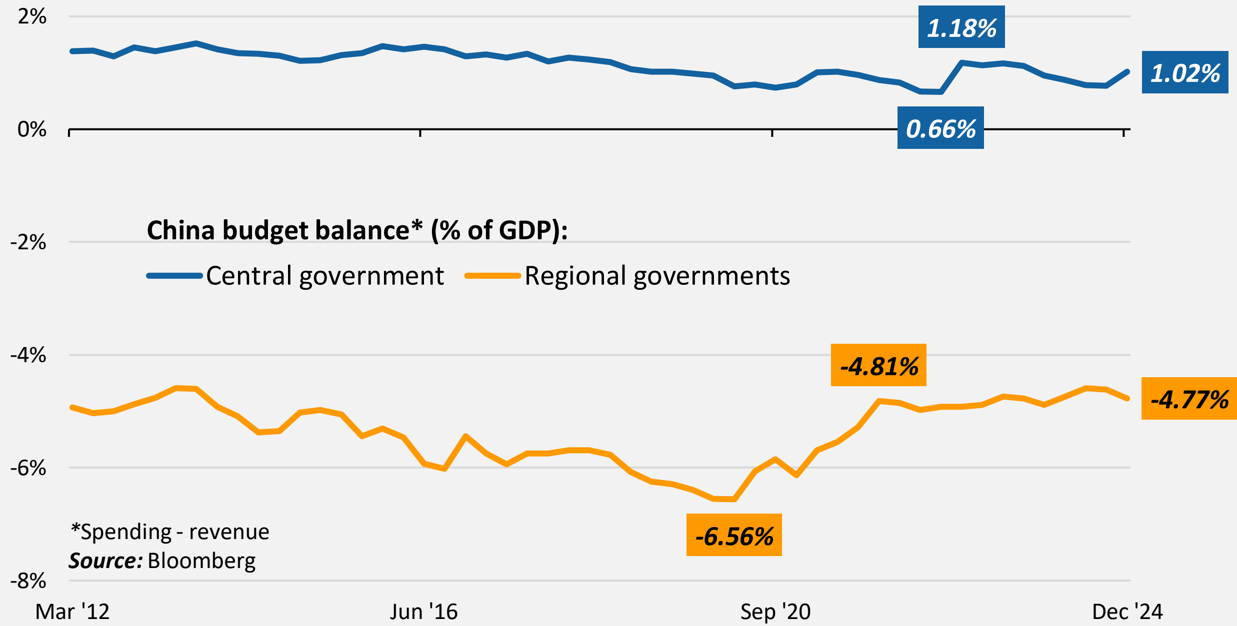
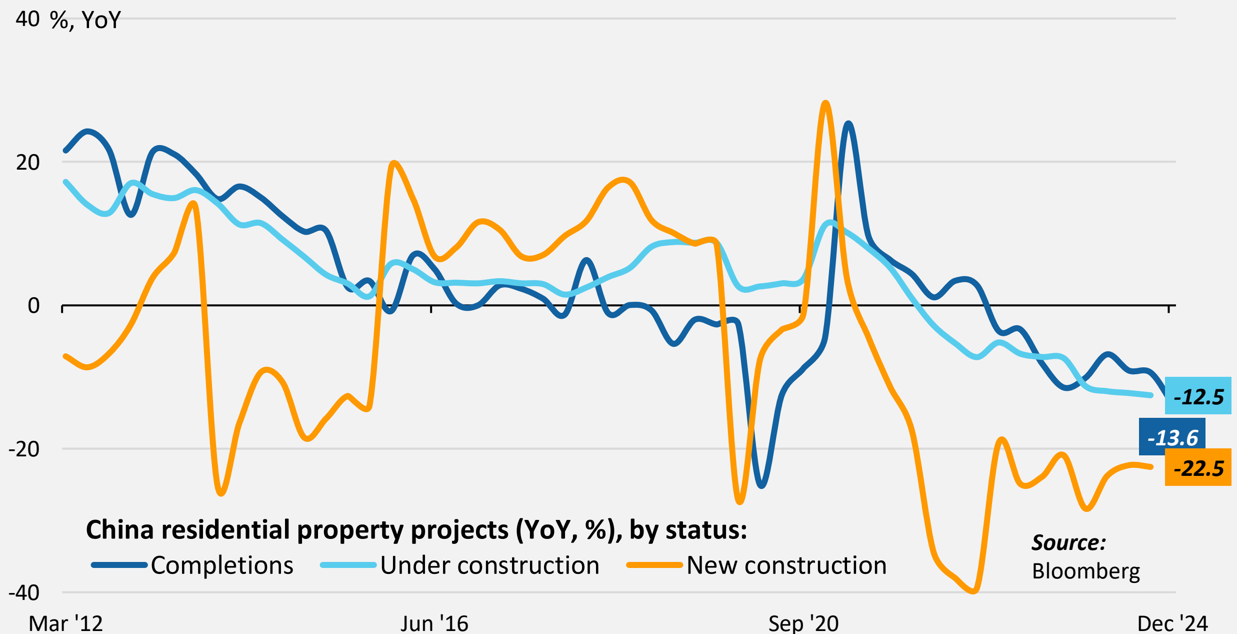


Chart 4

Stepping carefully

China's central government remains careful in directing investments to the ailing property sector, prioritising delivery of ongoing projects rather than starting a new one



Economic Calendar

		Actual	Previous	Forecast*
03 March 2025				
ID	S&P Global Manufacturing PMI	53.6	51.9	52.3
ID	**Inflation Rate YoY, %**	**-0.09**	**0.76**	**0.5**
US	S&P Global Manufacturing PMI	52.7	51.2	51.6
06 March 2025				
EA	Retail Sales YoY, %	1.5	2.2	2
US	Balance of Trade, (Bn)	-131.4	-98.4	-123
07 March 2025				
CN	Balance of Trade, (Bn)	170.52	104.84	152.0
ID	**Foreign Exchange Reserves, USD Bn**	**154.5**	**156.1**	**156.0**
US	Non-Farm Payrolls, th	151	125	150.0
09 March 2025				
CN	Inflation Rate YoY, %	-0.7	0.5	-0.4
10 March 2025				
ID	Motorbike Sales YoY, %	4.0	-5.5	-4
11 March 2025				
ID	Consumer Confidence		127.2	127.5
ID	Car Sales YoY, %		-11.3	-
12 March 2025				
ID	Retail Sales YoY, %		1.8	0.4
US	Inflation Rate YoY, %		3	3.0
17 March 2025				
ID	**Balance of Trade, USD Bn**		**3.45**	**-**
CN	Retail Sales YoY, %		3.7	-
US	Retail Sales YoY, %		4.2	3.5
18 March 2025				
EA	Balance of Trade, (Bn)		15.5	-
19 March 2025				
ID	**Interest Rate Decision, %**		**5.75**	**-**
20 March 2025				
US	**Fed Interest Rate Decision, %**		**4.5**	**4.5**
ID	M2 Money Supply YoY, %		5.9	-
ID	Loan Growth YoY, %		10.27	-
ID	Tourist Arrival YoY, %		8.72	-
28 March 2025				
US	PCE Price Index YoY, %		2.5	-

*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 (%)
US	4.50	Dec-24	1.50
UK	4.50	Feb-25	1.50
EU	2.65	Mar-25	0.25
Japan	0.50	Jan-25	-3.50
China (lending)	2.00	Sep-24	5.05
Korea	2.75	Feb-25	0.75
India	6.25	Feb-25	1.94
Indonesia	5.75	Jan-25	5.84

Money Mkt Rates	7-Mar	-1 mth	Chg (bps)
SPN (1Y)	6.04	6.17	-13.1
SUN (10Y)	6.85	7.00	-14.6
INDONIA (O/N, Rp)	5.68	5.79	-11.3
JIBOR 1M (Rp)	6.38	6.40	-1.9

Bank Rates (Rp)	Dec	Nov	Chg (bps)
Lending (WC)	8.62	8.68	-5.92
Deposit 1M	4.92	4.78	14.17
Savings	0.68	0.67	1.19

Currency/USD	7-Mar	-1 mth	Chg (%)
UK Pound	0.774	0.801	3.53
Euro	0.923	0.963	4.37
Japanese Yen	148.0	154.3	4.26
Chinese RMB	7.246	7.245	-0.02
Indonesia Rupiah	16,295	16,345	0.31

Capital Mkt	7-Mar	-1 mth	Chg (%)
JCI	6,636.0	7,073.5	-6.18
DJIA	42,801.7	44,556.0	-3.94
FTSE	8,679.9	8,570.8	1.27
Nikkei 225	36,887.2	38,798.4	-4.93
Hang Seng	24,231.3	20,790.0	16.55

Foreign portfolio ownership (Rp Tn)	Feb	Jan	Chg (Rp Tn)
Stock	3,083.7	3,531.1	-447.42
Govt. Bond	890.2	881.3	8.86
Corp. Bond	5.1	6.0	-0.89

Trade & Commodities	7-Mar	-1 mth	Chg (%)
Baltic Dry Index	1,400.0	753.0	85.9
S&P GSCI Index	551.3	567.6	-2.9
Oil (Brent, $/brl)	70.4	76.2	-7.7
Coal ($/MT)	117.5	124.3	-5.5
Gas ($/MMBtu)	4.23	3.25	30.2
Gold ($/oz.)	2,909.1	2,842.7	2.3
Copper ($/MT)	9,608.6	9,024.7	6.5
Nickel ($/MT)	16,292.0	15,048.4	8.3
CPO ($/MT)	1,080.2	1,035.1	4.4
Rubber ($/kg)	2.04	1.99	2.5

External Sector	Jan	Dec	Chg (%)
Export ($ bn)	21.45	23.46	-8.56
Import ($ bn)	18.00	21.22	-15.18
Trade bal. ($ bn)	3.45	2.24	54.17
Central bank reserves ($ bn)*	156.1	155.7	0.23

Prompt Indicators	Jan	Dec	Oct
Consumer confidence index (CCI)	127.2	127.7	121.1
Car sales (%YoY)	-11.3	-6.4	-3.7
Motorcycle sales (%YoY)	-6.0	-5.5	5.4

Manufacturing PMI	Feb	Jan	Chg (bps)
USA	52.7	51.2	150
Eurozone	47.6	46.6	100
Japan	49.0	48.7	30
China	50.8	50.1	70
Korea	49.9	50.3	-40
Indonesia	53.6	51.9	170

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	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	6.0	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	2.3
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	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*

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