

Drawing liquidity from a drying well

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Summary

- Purchase of government bonds (SBN) by households has accelerated in recent years as demand remains strong and the government leans more into this stable source of liquidity.
- Frontloaded SBN issuance this year may have constrained household liquidity, and improvement in consumer spending and bank liquidity will depend on disbursement of government spending.
- Continued decline in household savings means the government may have to look for other sources of liquidity, possibly from corporates.

- The US market had been in relatively calm waters recently, with The Fed keeping rates stable and the median dot plot still showing 2 cuts this year, broadly in line with market expectations even as growth and inflation outlook remain uncertain. The market had also seemed to shrug off Donald Trump's promise of a tariff barrage on April 2nd dubbed 'Liberation Day', with the S&P 500 rising by a modest 0.51% last week. The justification, such as it is, is that the upcoming tariffs will be supposedly more selective compared to previous rounds.

It takes two to tango

- Amidst the sell-off in the stock market, the bond market had been relatively calmer place. Despite (or perhaps because) a substantial increase in 10Y SBN yields (up by 21.4 bps last week), bonds continue to record foreign inflows.
- This trend of inflows had also been replicated in the retail side, as direct retail ownership in SBN had seen substantial gains. This pattern of retail ownership corresponds well with the **increased**

- Unfortunately, the same cannot be said for Indonesia. The stock market recorded its first trading halt ever since the pandemic, with the JCI index falling by -3.84% on 18th of March. OJK responded to the event by broadening the rules for stock buybacks, allowing it without explicit approval from shareholders. Given companies' relatively robust cash balances at the moment, this may be a useful buffer against short-term downturns in sentiment.

issuance of retail bonds in recent years (see *Chart 1*).

- In some ways, this is a positive development in the financial market. Increased access towards government bonds through various investment platforms have empowered household to plan for their financial future by guaranteeing access to a safe and predictable investment vehicle,

while simultaneously allowing the government greater access to financing.

- Moreover, households are (usually) not active traders in the bond market and often prefer to hold SBN to maturity. Thus, they might not exert significant selling pressure in volatile periods, even if most (but not all) of these bonds were theoretically sellable. On the contrary, higher nominal (but not necessarily real) rates can drive greater demand from these retail investors.
- It is logical then, that the government would lean more and more into this ‘captive’ source of liquidity, especially during recent periods where uncertainty had been persistent, thus making households a steadfast source of liquidity compared to alternate sources (*see Chart 2*). We had seen some evidence of this by the record-breaking amount of issuance for ORI027 (a type of retail-focused SBN) in Jan-Feb ‘25; reaching IDR 37.36 Tn compared to IDR 20.4 Tn for ST013, its most recent counterpart in Nov-Dec ‘24.

Kinetic versus potential energy

- However, this increased reliance on retail to finance the government may have coincided with the overall lower spending we see on our internal data. As noted in our previous report on budget realization, the government slowed its spending for a few reasons (from a temporary decline in revenue to an attempt to reallocate the budget towards new priorities), while simultaneously frontloading its debt issuance.
- While this frontloading practice is nothing out of the ordinary by itself, we must note that the deficit (-0.13% of GDP) this early into the year have resulted in a relatively large amount of debt issuance amounting to IDR 220.1 Tn as of Feb-25; a third of the allocated amount for 2025. (*see Chart 3*).

- In theory, the government could make up for the shortfall by dipping into its ample cash reserves (SAL) at BI, but this has been untouched (even rising) in recent months. SAL thus represents a large source of liquidity that the government can deploy – either as fiscal stimulus or to inject its “below the line” investment vehicles (Danantara, Agrinas, Tapera, etc.). Until these are deployed, however, there is a risk that private liquidity would remain limited and increasingly used to support the public sector.
- A crucial part of the equation then, would be the speed of government spending realization, since a longer period of ‘missing funds’ could depress overall economic activity. The government’s landmark free nutritious meal program may aid in this endeavour, if (as expected) it reaches its full scale of implementation by September. The lack of “kinetic energy” at the present, then, would be offset by more “potential energy” for H2-25.
- Other than the disbursement question, however, there is also a question of household savings itself, which have decreased since 2023. This decline has further reduced households’ options to allocate their savings among saving accounts, time deposits, stocks, and bonds (*see Chart 4*). Proportionately, more of these funds have been placed in bonds in recent months, at the expense of TD and stocks.
- The government, then, may need to find other financing sources, possibly from corporations, which had built up ample cash reserves following the commodity boom of 2021-22 and has often been reluctant to reinvest it. Unfortunately, the current plan of channelling these money into stock buybacks may not be the optimal choice for the economy, since “wealth effect” from higher stock prices is likely to be quite meagre given the relatively low retail ownership in equities.

Table 1

Home delivery

The higher share of retail bonds issuance since 2021 indicated the increasing importance of household savings to the government’s financing strategy

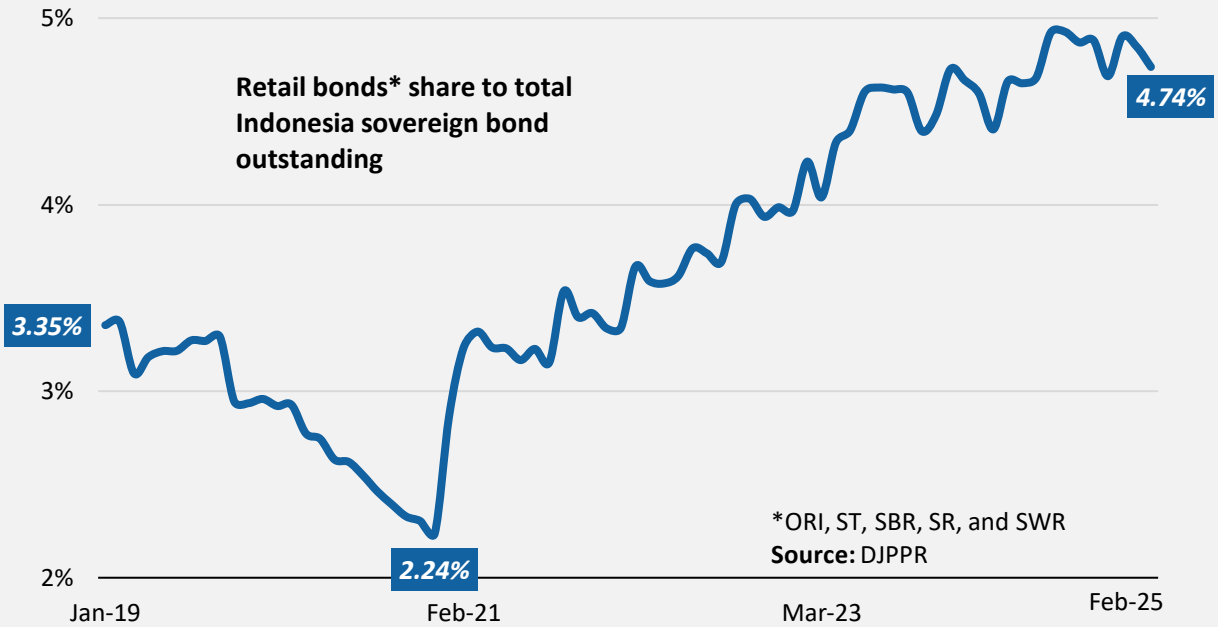


Chart 2

Taking it from the source

Private households continue to be a dependable and less volatile source of liquidity

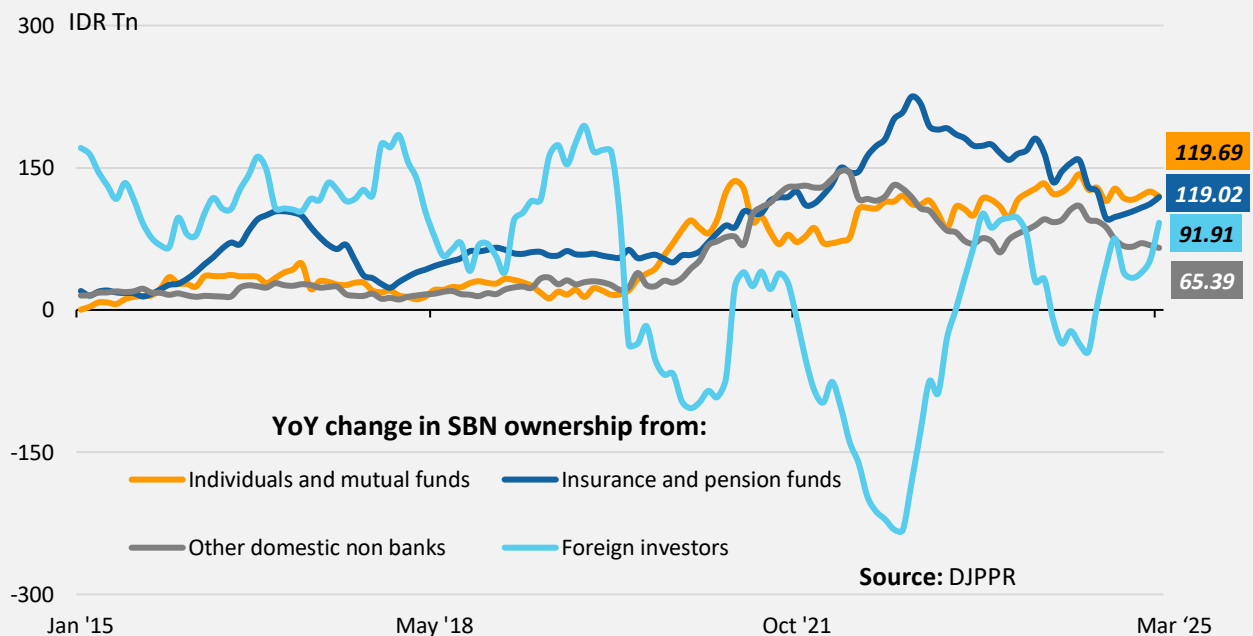


Chart 3

Different methods, same results

Net SBN issuance reached it's a high relative to previous years as lagging revenue and increasing global uncertainty force the MoF to do heavy frontloading

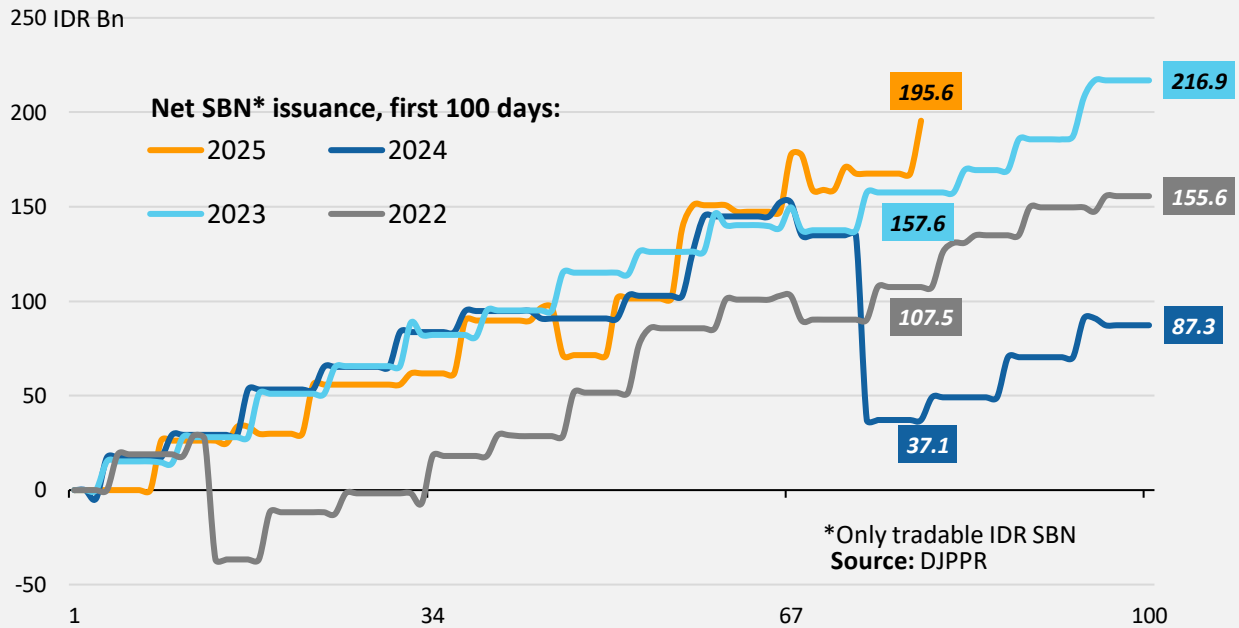
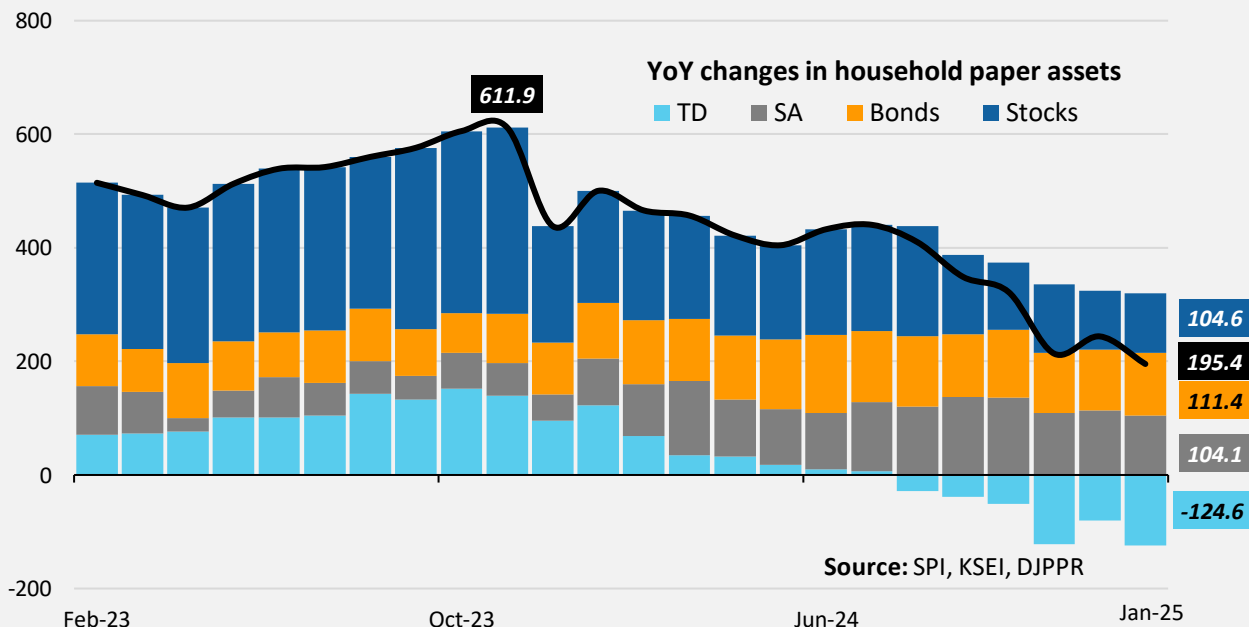


Chart 4

A thinner piggy bank

Lower overall savings prompt household to reduce exposure to time deposits (TD) and stocks while bond purchase and savings (SA) remain stable



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	126.4	127.2	127.5
ID	Car Sales YoY, %	2.2	-11.3	-7
12 March 2025				
ID	Retail Sales YoY, %	0.5	1.8	0.4
US	Inflation Rate YoY, %	2.8	3	2.9
17 March 2025				
ID	Balance of Trade, USD Bn	3.12	3.49	1.0
CN	Retail Sales YoY, %	4	3.7	3.7
US	Retail Sales YoY, %	3.1	3.9	3.5
18 March 2025				
EA	Balance of Trade, (Bn)	1	15.4	12.5
19 March 2025				
ID	Interest Rate Decision, %	5.75	5.75	5.75
ID	Loan Growth YoY, %	10.3	10.27	10.2
20 March 2025				
US	Fed Interest Rate Decision, %	4.5	4.5	4.5
20 March 2025				
ID	M2 Money Supply YoY, %	5.7	5.5	-
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 (%)	Trade & Commodities	21-Mar	-1 mth	Chg (%)
US	4.50	Dec-24	1.70	Baltic Dry Index	1,643.0	841.0	95.4
UK	4.50	Feb-25	1.50	S&P GSCI Index	558.2	576.0	-3.1
EU	2.65	Mar-25	0.35	Oil (Brent, \$/brl)	72.2	75.8	-4.9
Japan	0.50	Jan-25	-3.20	Coal (\$/MT)	104.0	112.8	-7.8
China (lending)	2.00	Sep-24	5.05	Gas (\$/MMBtu)	3.94	6.40	-38.4
Korea	2.75	Feb-25	0.75	Gold (\$/oz.)	3,022.2	2,936.0	2.9
India	6.25	Feb-25	2.64	Copper (\$/MT)	9,813.5	9,401.2	4.4
Indonesia	5.75	Jan-25	5.84	Nickel (\$/MT)	15,833.3	15,130.1	4.6
				CPO (\$/MT)	1,063.5	1,067.4	-0.4
				Rubber (\$/kg)	1.99	2.06	-3.4
Money Mkt Rates	21-Mar	-1 mth	Chg (bps)	External Sector	Feb	Jan	Chg (%)
SPN (1Y)	6.01	6.03	-1.8	Export (\$ bn)	21.98	21.43	2.58
SUN (10Y)	7.17	6.75	41.3	Import (\$ bn)	18.86	17.94	5.18
INDONIA (O/N, Rp)	5.80	5.70	10.4	Trade bal. (\$ bn)	3.12	3.49	-10.75
JIBOR 1M (Rp)	6.38	6.38	0.1	Central bank reserves (\$ bn)*	154.5	156.1	-1.01
Bank Rates (Rp)	Dec	Nov	Chg (bps)	Prompt Indicators	Feb	Jan	Oct
Lending (WC)	8.62	8.68	-5.92	Consumer confidence index (CCI)	126.4	127.2	121.1
Deposit 1M	4.92	4.78	14.17	Car sales (%YoY)	0.0	-11.3	-3.7
Savings	0.68	0.67	1.19	Motorcycle sales (%YoY)	0.0	-6.0	5.4
Currency/USD	21-Mar	-1 mth	Chg (%)	Manufacturing PMI	Feb	Jan	Chg (bps)
UK Pound	0.774	0.793	2.43	USA	52.7	51.2	150
Euro	0.924	0.957	3.56	Eurozone	47.6	46.6	100
Japanese Yen	149.3	152.1	1.83	Japan	49.0	48.7	30
Chinese RMB	7.252	7.275	0.33	China	50.8	50.1	70
Indonesia Rupiah	16,500	16,275	-1.36	Korea	49.9	50.3	-40
				Indonesia	53.6	51.9	170
Capital Mkt	21-Mar	-1 mth	Chg (%)				
JCI	6,258.2	6,873.6	-8.95				
DJIA	41,985.4	44,556.3	-5.77				
FTSE	8,646.8	8,766.7	-1.37				
Nikkei 225	37,677.1	39,270.4	-4.06				
Hang Seng	23,689.7	22,976.8	3.10				
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				

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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