FOLLOW THE MONEY #2 – 2025

Diving Dollar, rising Rupiah?

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Turning the corners?

- Liquidity remains tight at the macro level as we approach the mid-point of 2025 *[3]*, but some "green shoots" of recovery might be emerging. On the public sector, we see accumulation of liquidity among SOEs *[4]*—likely driven by a new arrangement where they no longer return dividends to the *MoF*. Instead, these dividends is now managed by *BPI Danantara*, which is expected to invest them in designated strategic projects. The growing SOE deposits, then, act as "potential energy" for future investment growth.

- Likewise, consumer deposits have resurged after two years of dis-saving *[10]*, although households in Jakarta still lag behind *[11]*. Unlike SOEs, it is trickier to ascribe this improvement to a single overarching cause. Government transfers—restitution of personal taxes (TER), electricity discounts—were likely contributors, while high prices of plantation commodities seem to boost incomes in Sumatra. This improved household liquidity should help finance consumption growth down the road.

- Unfortunately, other sectors' **net bank balance (NBB)** are moving southwards. Corporations have shifted to become net borrowers once more *[7]* amid subpar revenue growth, and conditions could worsen amid US tariff threats—as revenue from commodities falls *[8]* while competition from imported Chinese goods stiffens *[9]*.

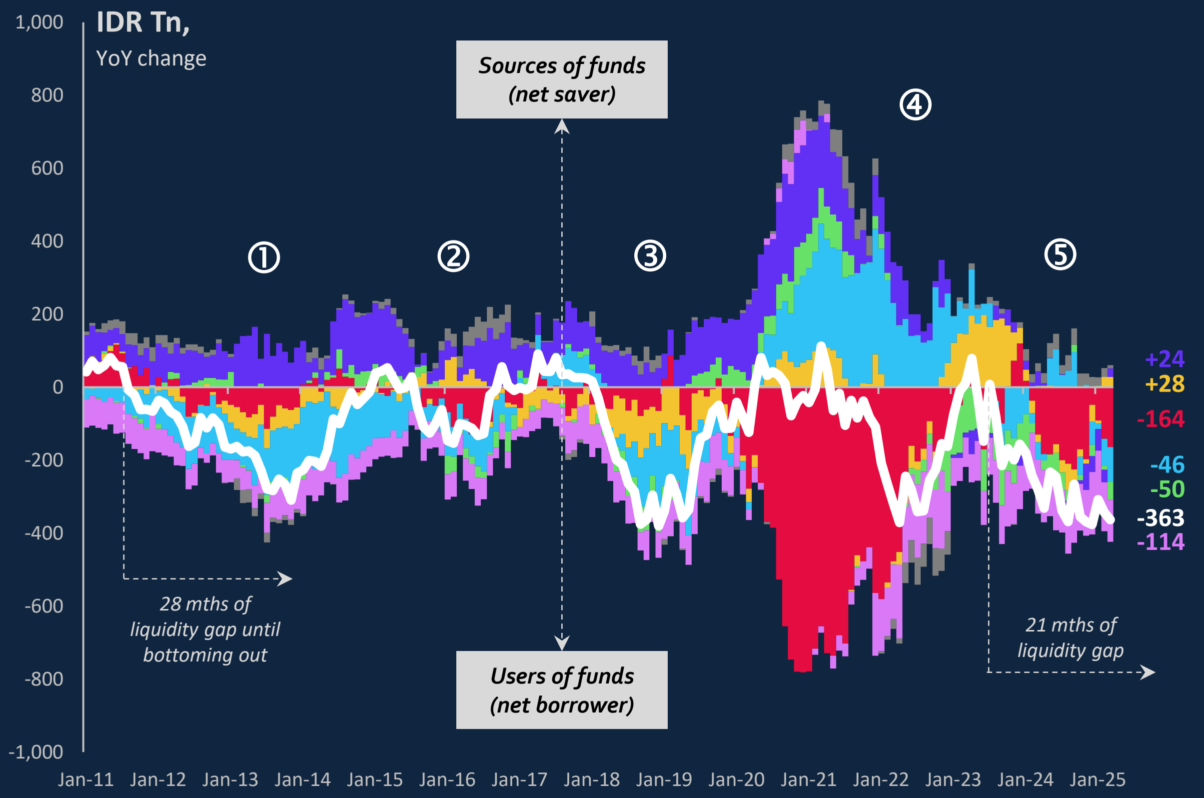
- The government's NBB deficit has also widened, in part due to the foregone SOE dividends and transfers to households. Frontloaded debt issuance has bolstered the government's cash reserves *[5]*, but revenue has slowed compared to previous years *[6]*.

- Ample reserves may allow the government to boost the economy in the short-term, notably through a recent consumption-focused stimulus package. But absent improvement on the revenue side, the government might have to cut back on spending again later in the year to avoid hitting the deficit limit (3% of GDP).

- At any rate, recent stimulus—both fiscal and monetary—may not have immediate impact on growth trajectory just yet, for one key reason: even if household (and SME) liquidity have bottomed out by the end of 2024, credit risk on these segments may continue to rise until 2026 *[12]*. This lag between liquidity and credit risks may dampen policy transmission, as the higher cost of credit weighs on banks' loan disbursement.

Prolonged drought

The current liquidity gap episode—the fifth since 2011—has been the second-longest, with few signs of abating



- **The current NBB deficit is also atypical, in that households—typically net savers—have become net borrowers, while the government's liquidity gap has also widened**

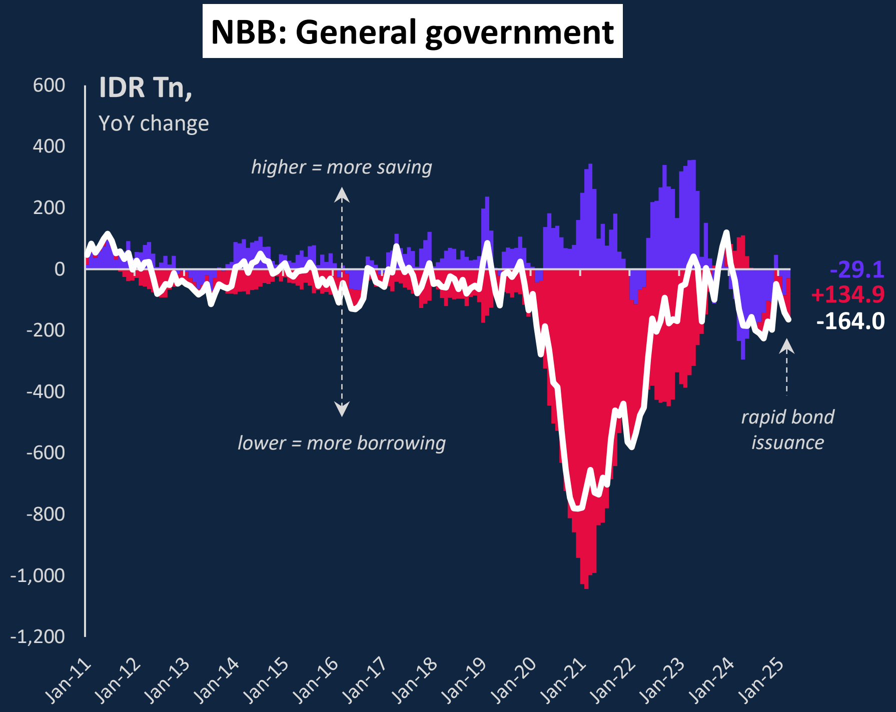
— ***Net bank balance*** **(NBB), YoY change:**

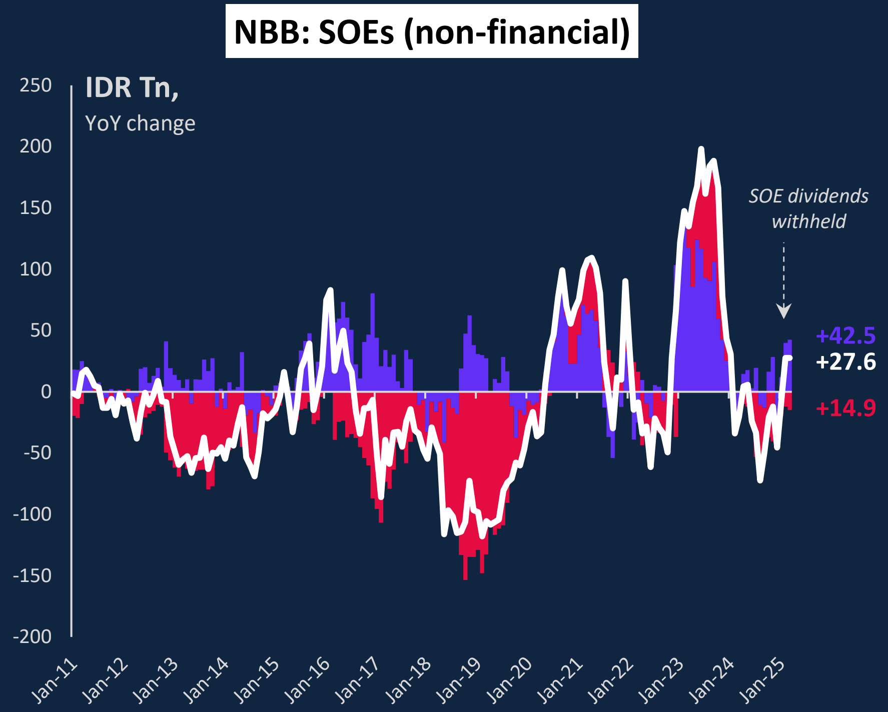
- Government
- SOEs
- Private corporations
- NBFIs
- Households
- SMEs
- Others (foundations, etc.)

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

Shifting gears

The government front-loads its debt issuance, while SOEs are accumulating liquidity—perhaps anticipating future investment projects (Danantara)



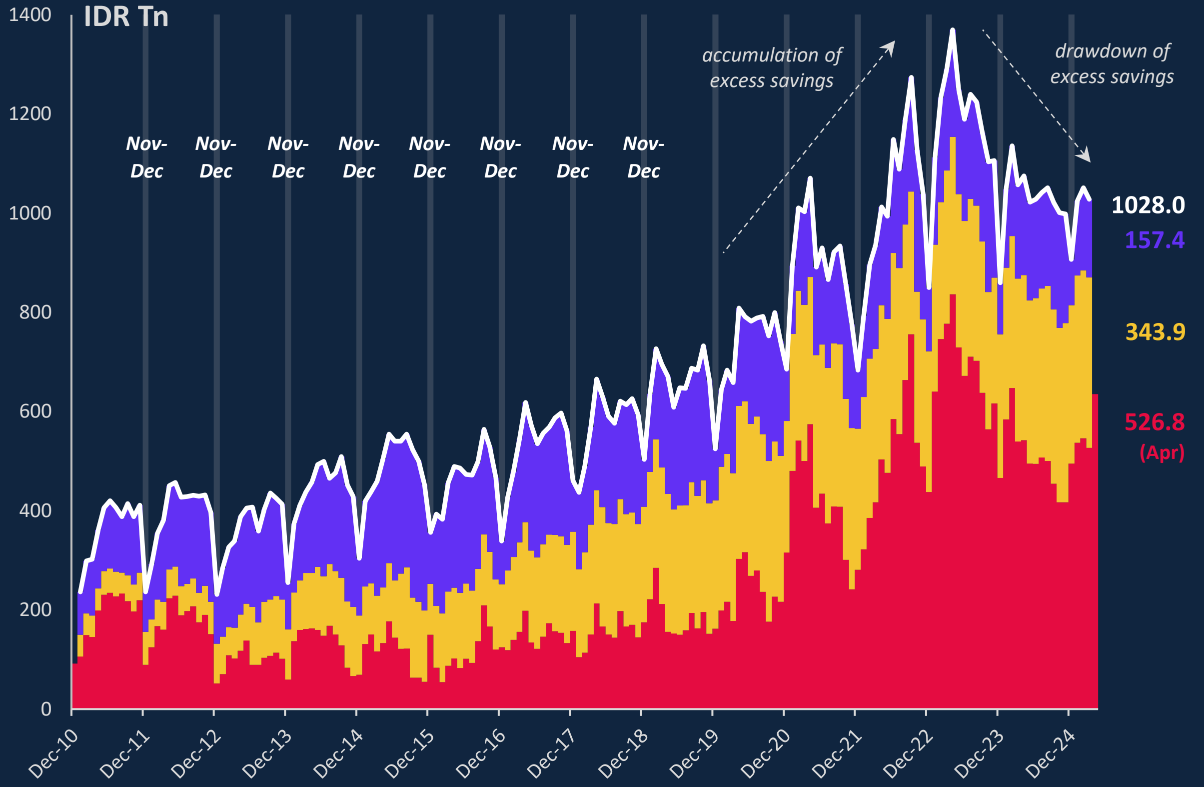


— ***Net bank balance*** **(NBB), YoY change:** ■ **Change in deposits** ■ **Change in loans and bonds**

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

Let the floodgates open …

In theory, the government has ample cash reserves to boost growth, especially with spending restrictions (Feb-Apr) having been relaxed



- Government spending ***subtracted*** **from GDP growth (by 0.04%) in Q1-25**
- **The MoF has eased restrictions on IDR 86.6 Tn worth of fiscal spending (out of IDR 306.1 Tn in Feb), plus a slew of consumer-oriented fiscal stimulus**

— Gov't deposits, by type:

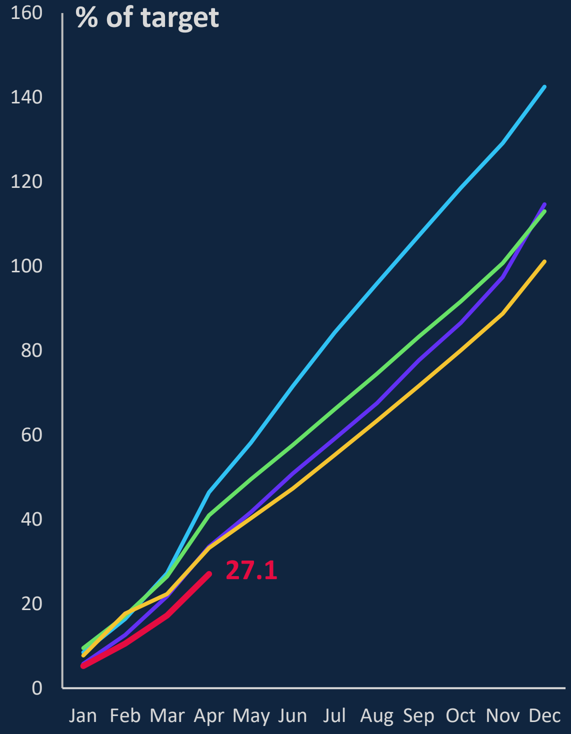
- **Central gov't at BI (SAL)**
- **Central gov't at commercial banks**
- **Regional gov't at commercial banks**

Source: *BI, calculations by BCA Economic Research*

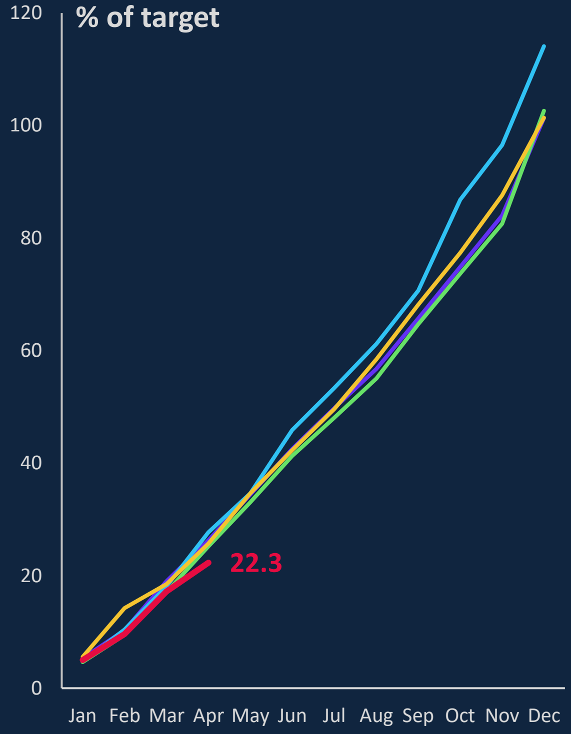
... but the water is slow to fill up

Revenue realization has been 15-20% slower than last year's pace, pointing to possible fiscal consolidation later in the year

Gov't revenue



Gov't expenditure



- **The seeming contradiction between ample reserves and weak revenue generation can be explained by frontloaded debt issuance**
- **Committing to 3% fiscal deficit rule means that gov't may not be able to utilize most of its cash reserves**

Realization, as % of target:

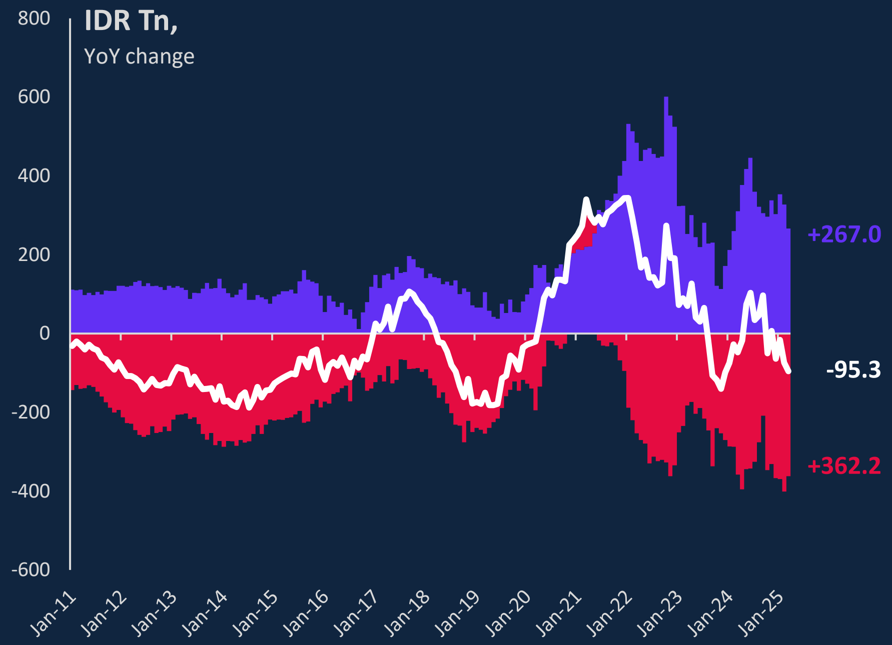
— 2021 — 2022
— 2023 — 2024
— 2025 (YTD)

Source: *MoF, calculations by BCA Economic Research*

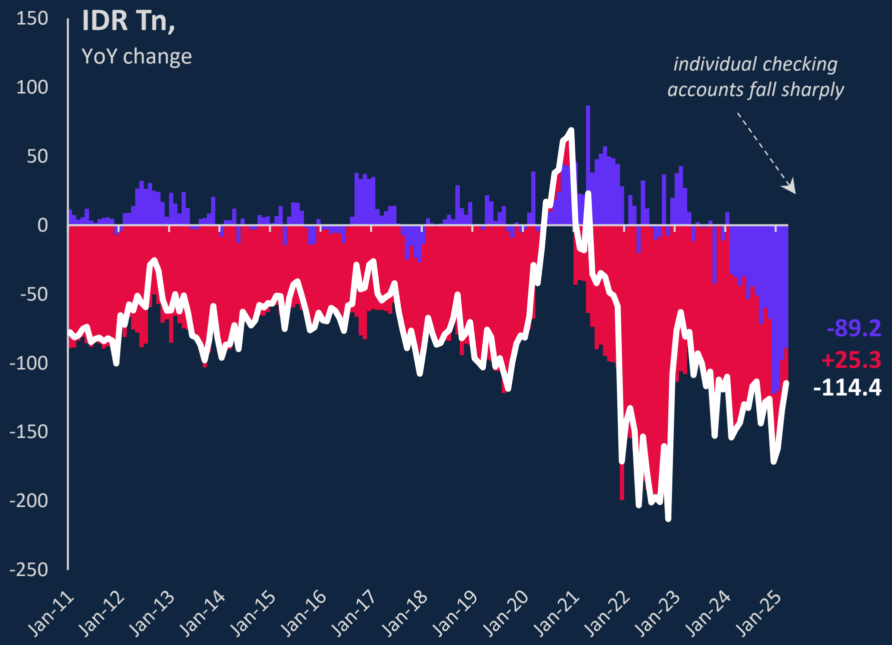
Back in the red

The business sectors are becoming net borrowers again—even large corporations which had been net savers since the 2021-22 commodity boom

NBB: Corporations (non-financial)



NBB: Small-medium enterprises

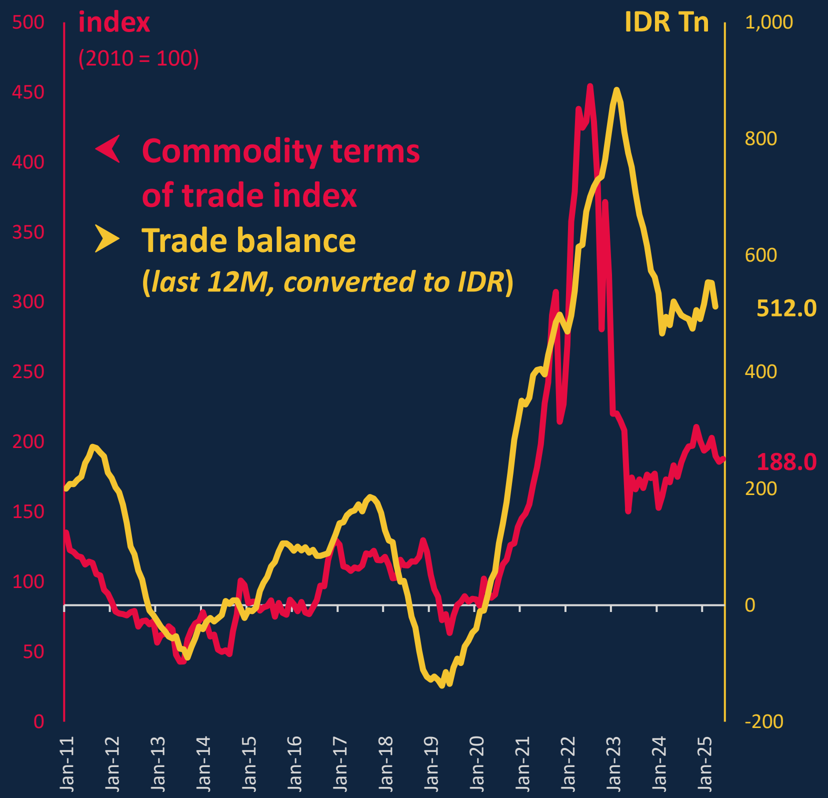


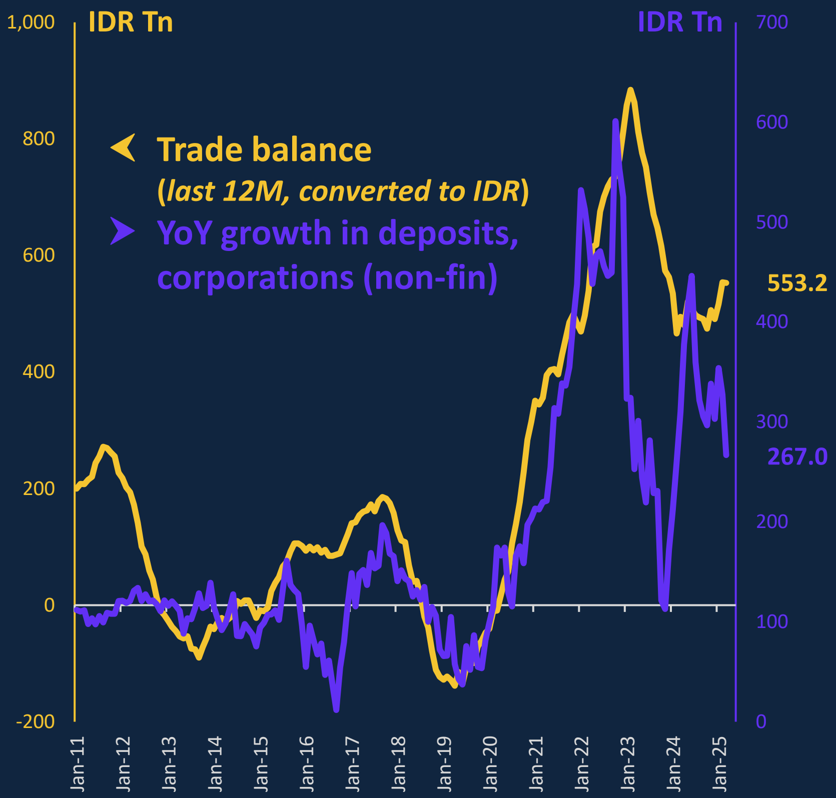
— ***Net bank balance*** **(NBB), YoY change:** ■ **Change in deposits** ■ **Change in loans and bonds**

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

Buffeted by trade winds *(1)*

The aftermath of Trump tariffs has worsened Indonesia's terms of trade, which in turn may translate to lower corporate savings

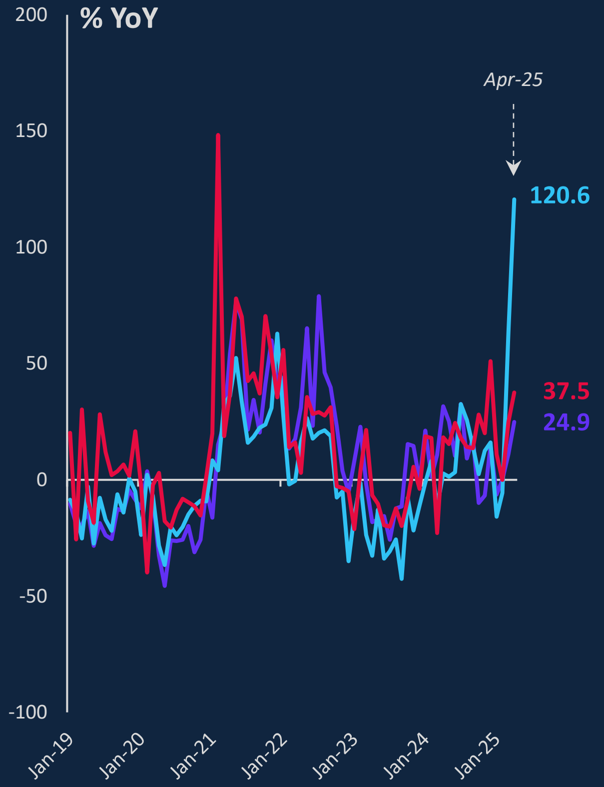


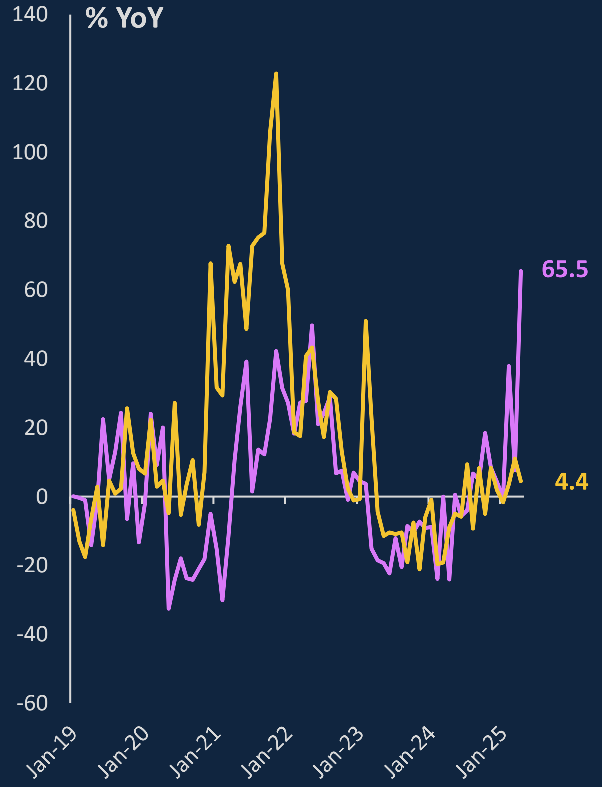


Source: *Bloomberg, BPS, BI, calculations by BCA Economic Research*

Buffeted by trade winds *(2)*

China/Singapore customs data point to a spike in Indonesian imports, which would further depress trade balance and undercut corporate liquidity





- **Chinese exports to ASEAN rose sharply as it seeks alternative markets to the US**
- **Spike in trade with Singapore points to alternative route for either dumping (from China) or transshipment to the US**

(*Left chart*)

Imports by Indonesia:

— from China — from Singapore

— from Singapore (non-oil)

(*Right chart*)

Exports by Indonesia:

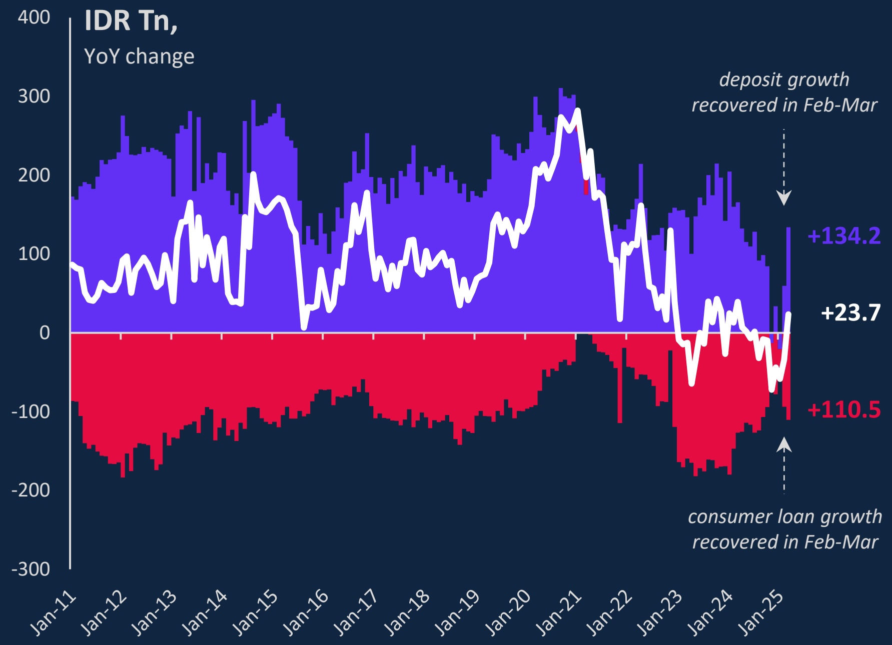
— to China — to Singapore

Source: *Bloomberg, BCA Economic Research*

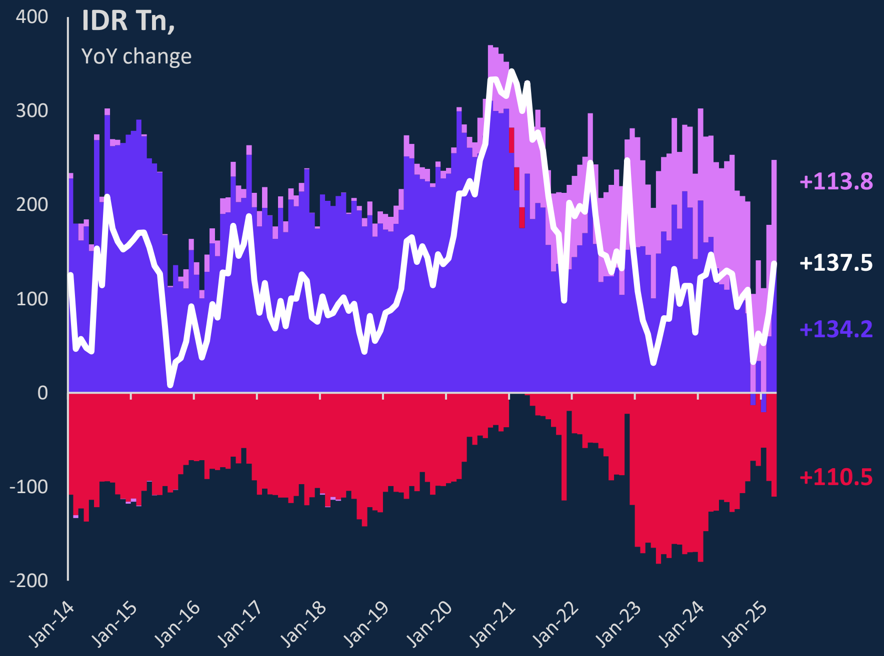
Recovery at last?

Consumer saving and borrowing rebounded in Q1—if sustained, this might finally support consumption a few quarters down the road

NBB: Households



… including gov't bond (SBN) holdings

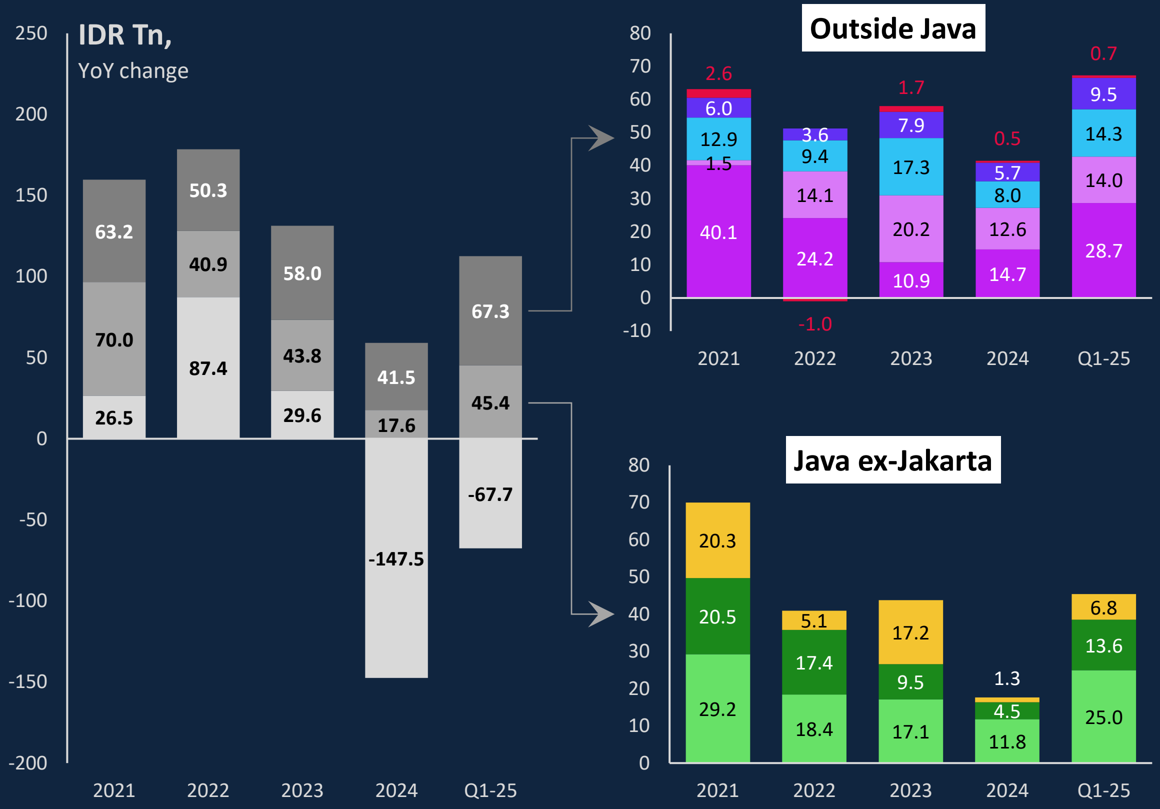


— ***Net bank balance*** **(NBB), YoY change:** ■ **Change in deposits** ■ **Change in SBN** ■ **Change in loans and bonds**

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

Hole at the center

Household liquidity improves across all regions relative to last year, but Jakarta households still draw down their savings in YoY terms



YoY growth in household deposits, by region:

(Left chart)

- Jakarta
- Java ex-Jakarta
- Outside Java

(Lower-right chart)

- West Java & Banten
- Central Java & Yogyakarta
- East Java

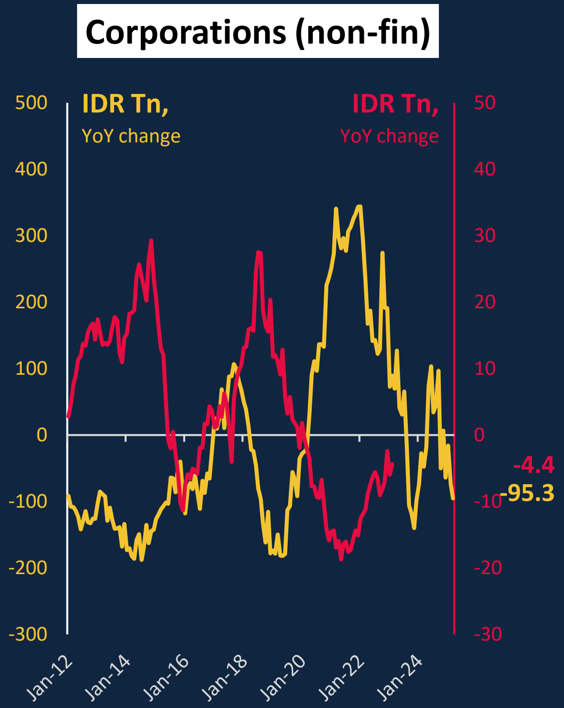
(Upper-right chart)

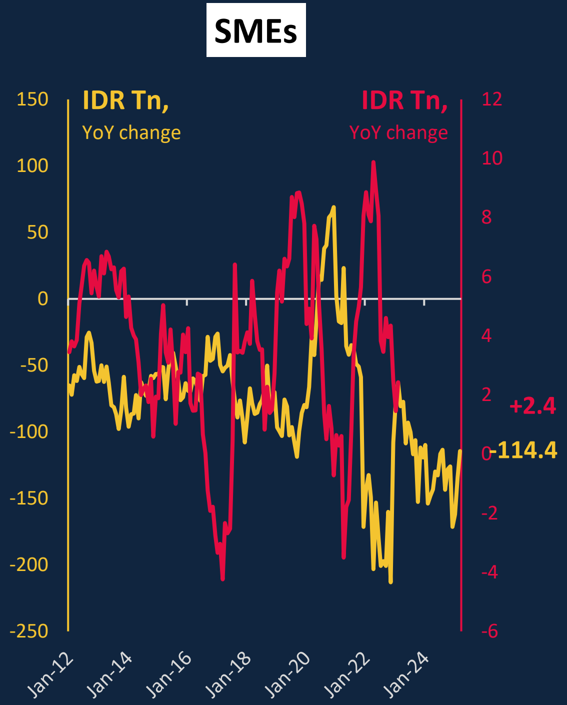
- Sumatra
- Bali & Nusa Tenggara
- Kalimantan
- Sulawesi
- Maluku & Papua

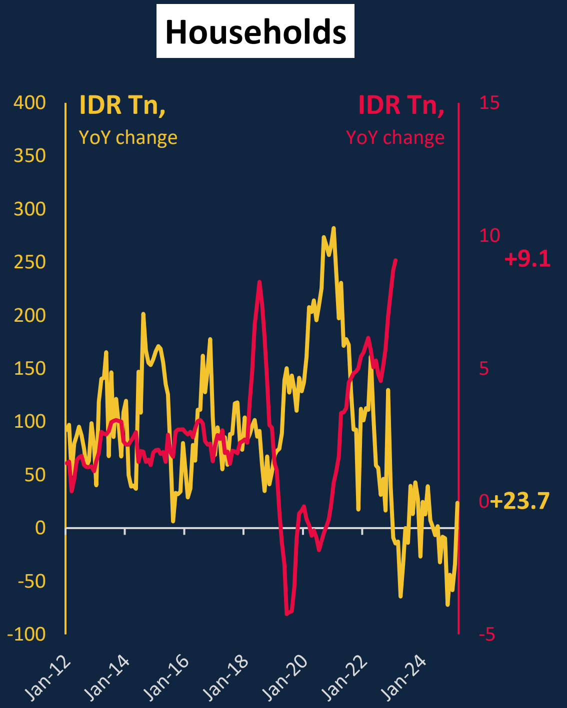
Source: *BI, calculations by BCA Economic Research*

Chronicle of bad debt foretold

NBB deterioration precedes NPL increase by about 2 years—meaning that higher NPL ratios (on consumer & SME loans) may already be baked-in







◀ ***Net bank balance*** **(NBB), YoY change** ▶ ***Non-performing loans*** **(NPL), YoY change, *2-year lag***

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

SPECIAL TOPIC

Weaker Dollar: Not necessarily stronger Rupiah

- The Rupiah has had a rollercoaster ride since Trump's "*Liberation Day*"—at first almost breaching 17,000/USD but then rocketing up to around 16,300 at the time of writing. Rupiah's recent strength, though, really reflects the weakness of the USD, which had fallen 5.8% (in NEER terms) in the interim.

- When compared to other currencies, the Rupiah is clearly lagging ***[16]***. Much of this performance gap can be traced to Indonesia's persistent saving-investment gap (see our ***Liquidity Monitor***), as well as an ongoing decline in SRBI issuance.

- Issuing SRBI, of course, had been BI's go-to move in dealing with exchange-rate pressures last year. We estimate that the USD/IDR would have been higher (i.e. weaker IDR) by 400-600 pts without SRBI ***[18]***. Recently, however, BI has slowed its SRBI issuance, with net issuance even turning negative ***[17]***.

- But why would BI forgo such an effective tool? The answer lies in our old friend the "liquidity trilemma" ***[15]***. Massive SRBI issuance in conjunction with government debt (SBN) sops up liquidity from banks and the private sector. Signs of liquidity stress have become more acute in recent months, as we can see from the increase in banks' use of repo facilities ***[19]*** and persistently high interbank rates within BI's interest rate corridor ***[20]***. BI has little choice but to reduce SRBI auctions to relieve this pressure.

- In the past, tight liquidity was typically followed by higher yields and/or IDR depreciation, which would relieve the pressure via two channels. *First*, they incentivize saving relative to borrowing, thus closing the S-I gap. *Secondly*, they attract liquidity from abroad by making Indonesian assets cheaper/more attractive.

- The fact that BI is now cutting rather than hiking, however, speaks to a different sort of challenge. With growth momentum slipping and real rates (vs. inflation) still high, the onus is towards easing—even if it means a wider NBB deficit and weaker Rupiah. Indeed by easing policy, BI essentially bets that the USD would continue to weaken and thereby solve some of its tricky tradeoffs.

- To some extent, this is a good bet to make. Erratic policies from Trump and concerns over US fiscal deficit have led to a growing chorus of “sell America” in the market—to the extent that further USD depreciation now seems to be the consensus.

- We should note, however, that Asian currencies including Rupiah has not benefited from USD depreciation to the same degree as traditional hard currencies such as the Euro. This can be explained by the greater exposure of Asia’s export-oriented economies to tariffs, which means that Asian central banks are much keener to cut rates and/or weaken their currencies to prop up growth.

- This is why we prefer to use the NEER as a measure of the Dollar instead of the Dollar index (DXY), which only gauges against other hard currencies. In NEER terms, the Dollar may not fall as much—even if the DXY drops to 90 by year-end (a 17% YoY fall), it would translate to a NEER decline of only 6-10%.

- The other key question, of course, is what would replace the SRBI inflows. While there has been discussions about corporate debt—including BI allowing banks to borrow more externally—the main thrust would still have to come from SBN.

- For one, inflows to SBN are typically larger than to equities, which indeed have suffered from net outflows YTD *[21]*. Perceptions on SBN, as seen from CDS basis, have also stayed more stable *[22]*. Finally, foreign purchase of SBN would free up domestic sectors—especially households—from the need to lend to the government *[24]*, thus relieving a major cause of recent liquidity tightness.

- In theory, there is still some upside for SBN since its performance has lagged behind EM bonds in general *[23]*. However, rising UST yields have compressed ID-US rate differentials, especially on the long end *[26]*.

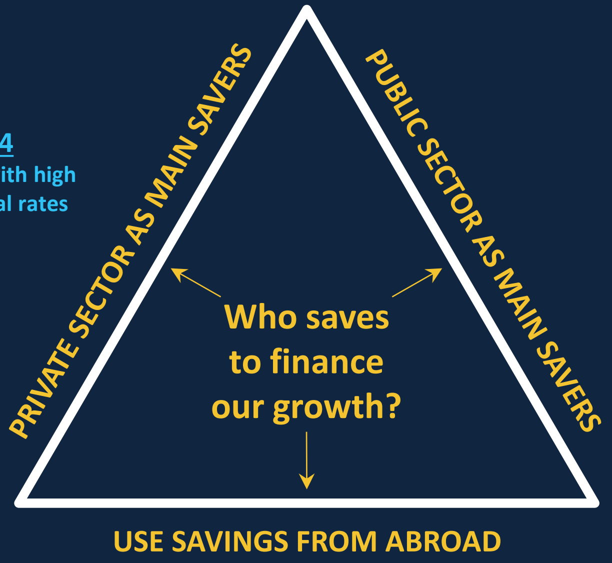
- The US Treasury’s tactic of issuing more T-Bills *[25]* adds another wrinkle, as it may dampen the rise in long-end UST yields but may also necessitate higher short-term yields in Indonesia. Issuing SRBI helped solve this issue previously, but banking on the illiquid SPN (short-term SBN) market would be more difficult—especially with BI Rate probably being cut by a further 50 bps.

- Our revised forecast USD/IDR forecast, then, takes all these into account. Weak USD should partly offset the impact of the S-I gap *[27]*, but the relative limitations of SBN inflows and Asian currency appreciation means that the IDR’s fundamental value is probably closer to 16,100 – 16,400/USD *[28]*, and the prospect of further strengthening beyond 16,000 requires a confluence of good luck from internal and especially external factors.

How to finance growth? A simple trilemma

If fiscal expansion is a *sine qua non*, strong private spending would probably come at the expense of Rupiah depreciation

Strong & stable Rupiah



Expansive fiscal policy

Strong private spending

Example: 2023-24
fiscal expansion coupled with high SRBI issuance and high real rates

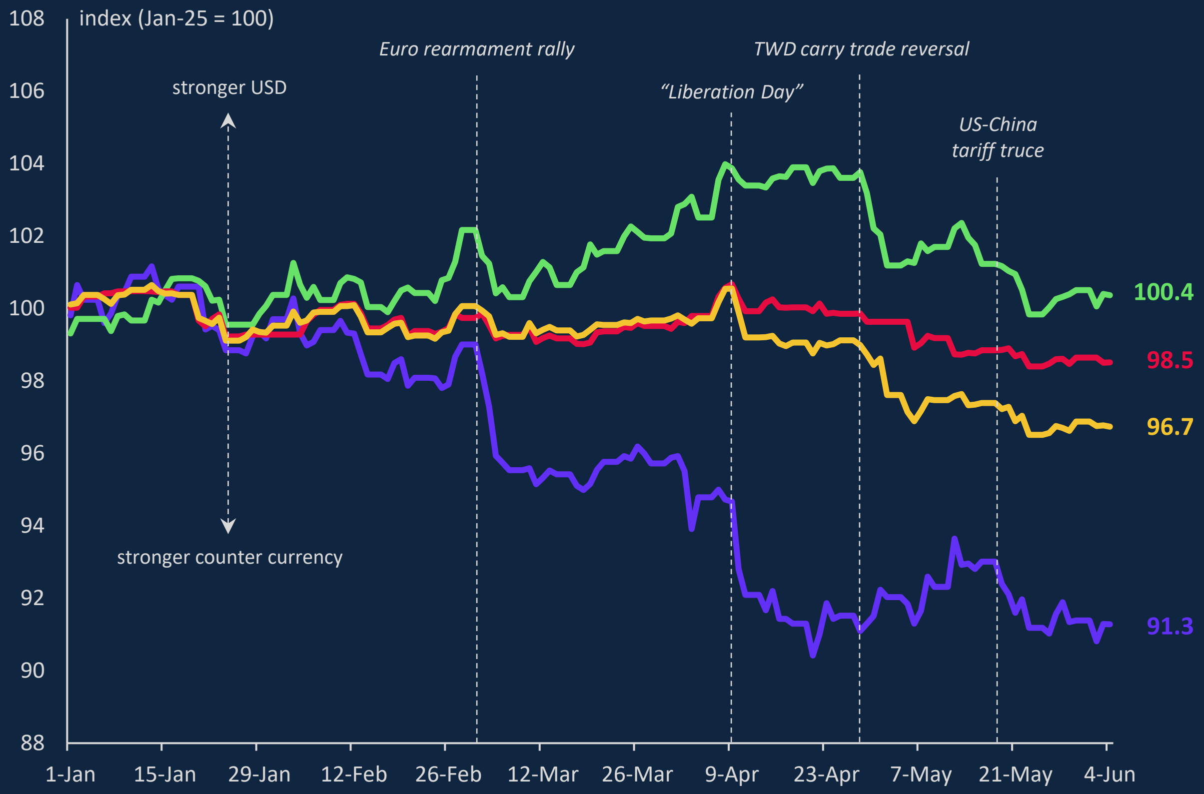
Example: 2012-13
consumption-oriented fiscal spending, e.g. energy subsidies

How to shake loose from this trilemma?

1. Commodity boom (luck-based)
2. Attracting more FDI
3. Focus on investments that generate exports (i.e. generate its own savings)

Straggler in the race

Amid the Dollar's weakness, Rupiah has only managed to break even—while other currencies have gained significantly



- **A big driver of USD weakness is flight to alternative safe havens, which favors hard currencies (EUR, CHF, SEK)**
- **Another major driver is the reversal of carry trade from funding currencies (JPY, TWD)**

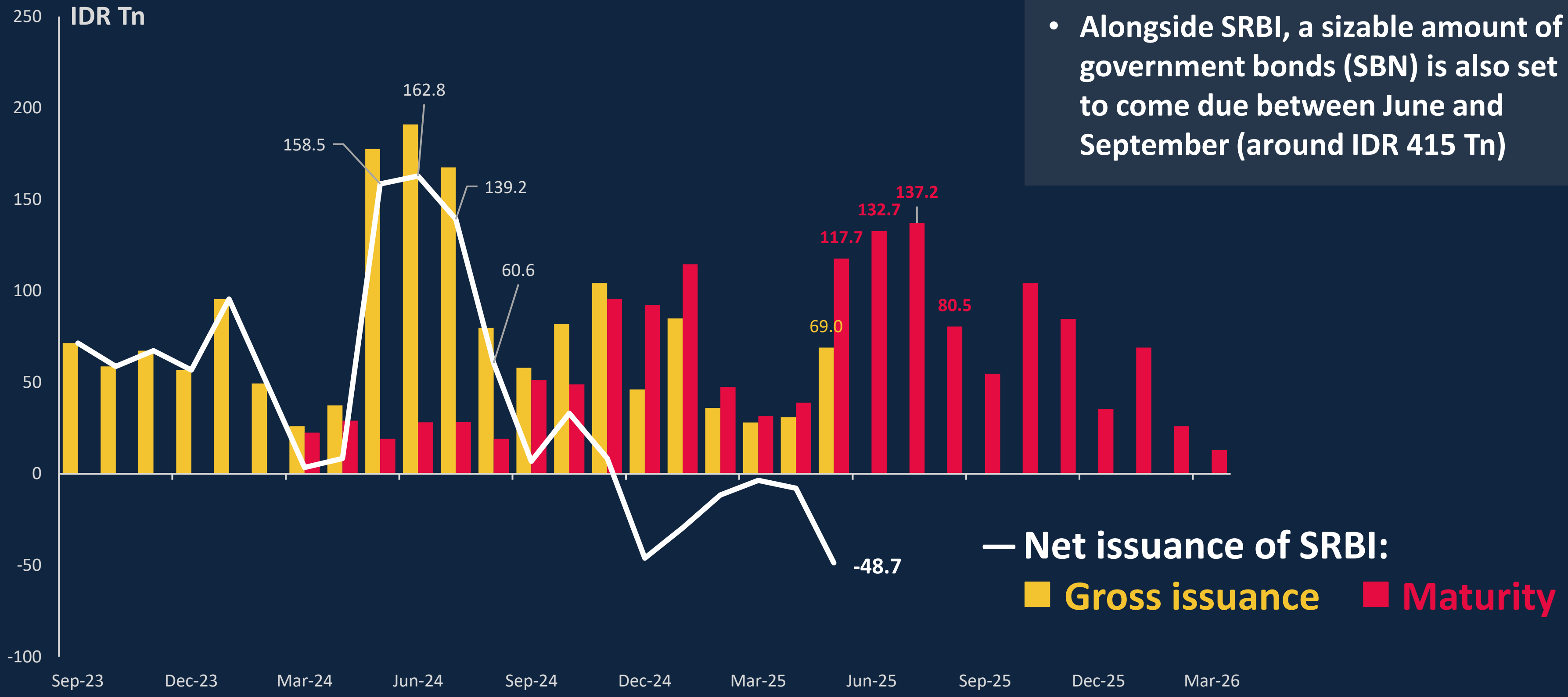
Exchange rate vs. USD:

— Hard currencies (1/DXY)
— Asian currencies (1/ADXY)
— Chinese Yuan
— Indonesian Rupiah

Source: *Bloomberg, calculations by BCA Economic Research*

What goes up must come down

Massive SRBI issuance during May-Aug 2024 (IDR 520.7 Tn) necessitates large-scale unwinding in May-Aug 2025—or liquidity would remain tight

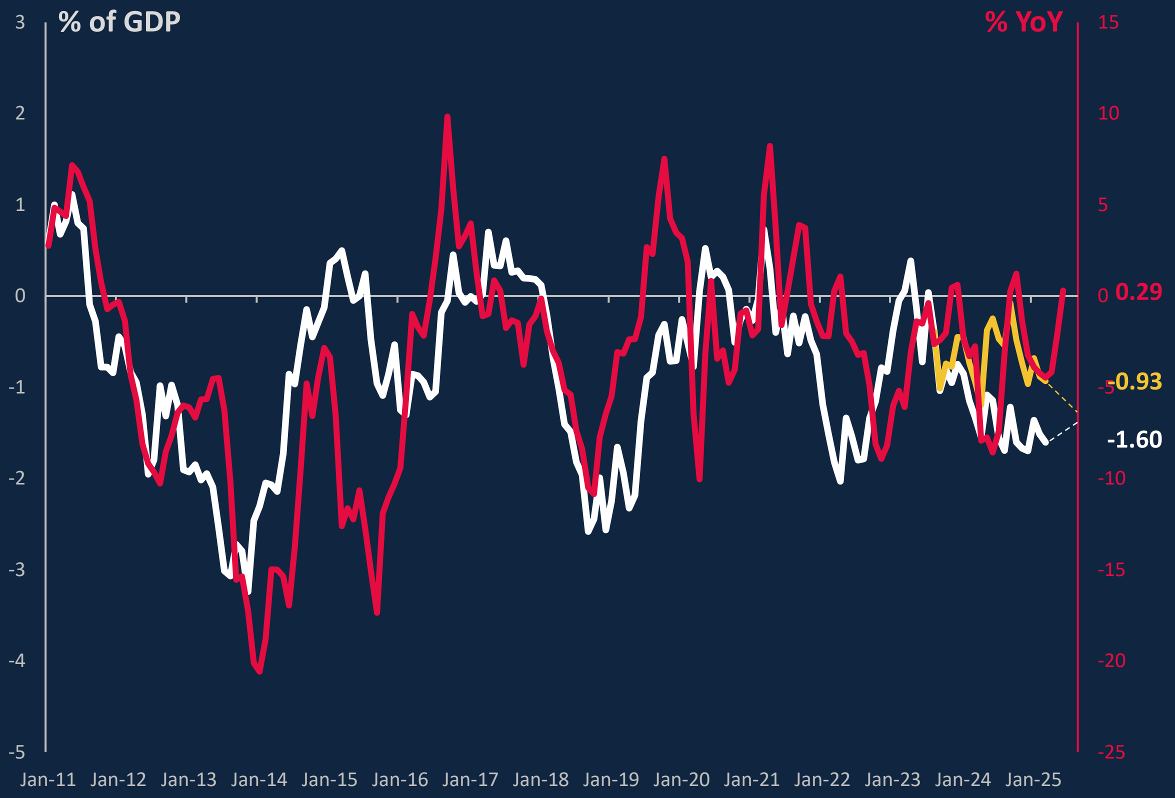


- **Alongside SRBI, a sizable amount of government bonds (SBN) is also set to come due between June and September (around IDR 415 Tn)**

Source: *BI, calculations by BCA Economic Research*

Cushion lost?

SRBI has cushioned Rupiah amid persistent liquidity gap; without it, Rupiah would have been 400-500 points weaker against the USD



- By the end of August, NBB (white line) and NBB-plus-SRBI (yellow line) may converge as YoY SRBI issuance goes to zero
- Ergo, without substantial reduction of the S-I gap, we may expect a gradual weakening of the Rupiah by 400-500 bps, outside of other factors (SBN inflows, Dollar valuation, etc.)

Net bank balance (NBB), YoY change

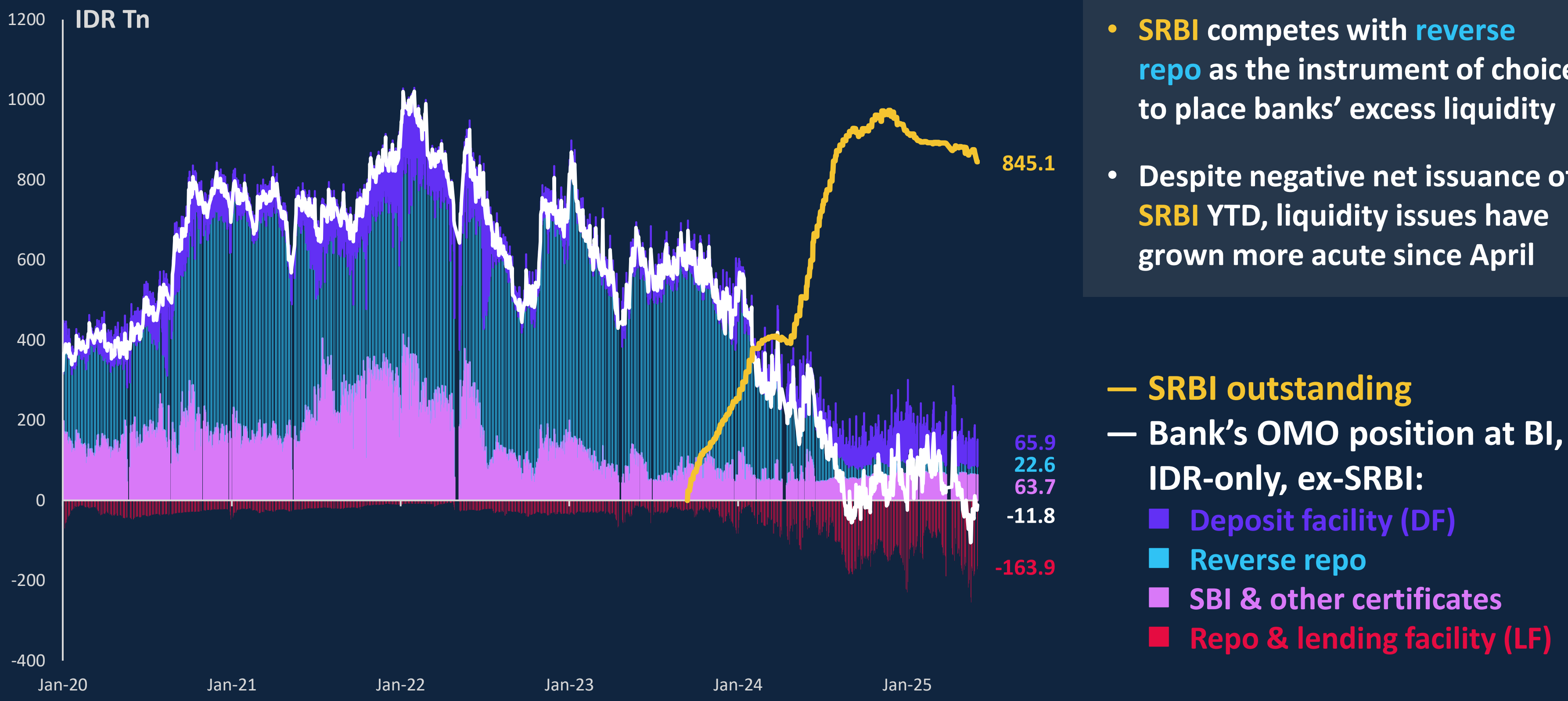
NBB plus foreign-owned SRBI

IDR/USD

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

Drainage and irrigation

Massive SRBI issuance in 2024 has substantially tightened bank liquidity—which BI now tries to alleviate via repo facilities

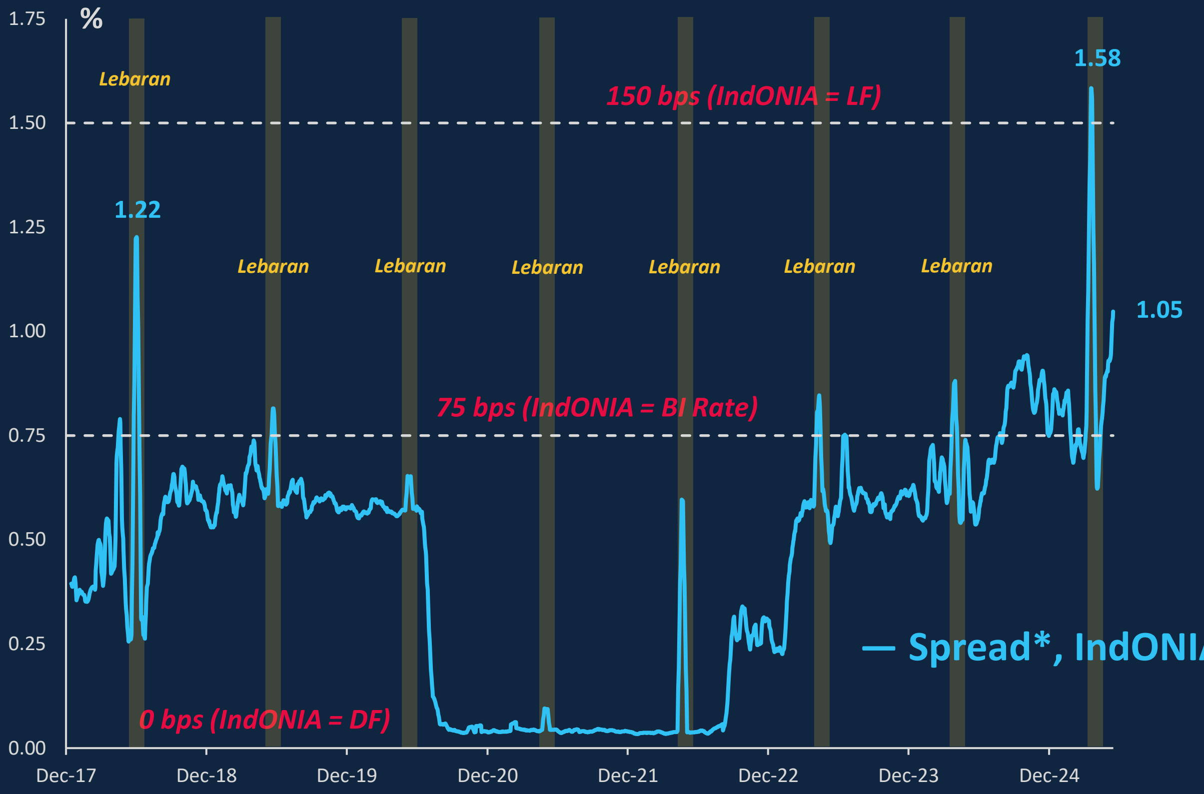


- SRBI competes with reverse repo as the instrument of choice to place banks' excess liquidity
- Despite negative net issuance of SRBI YTD, liquidity issues have grown more acute since April

Source: *BI, BCA Economic Research*

Squeezed upwards

Tight interbank liquidity has pushed overnight rates significantly above BI's benchmark (7-day) rate since mid-2024



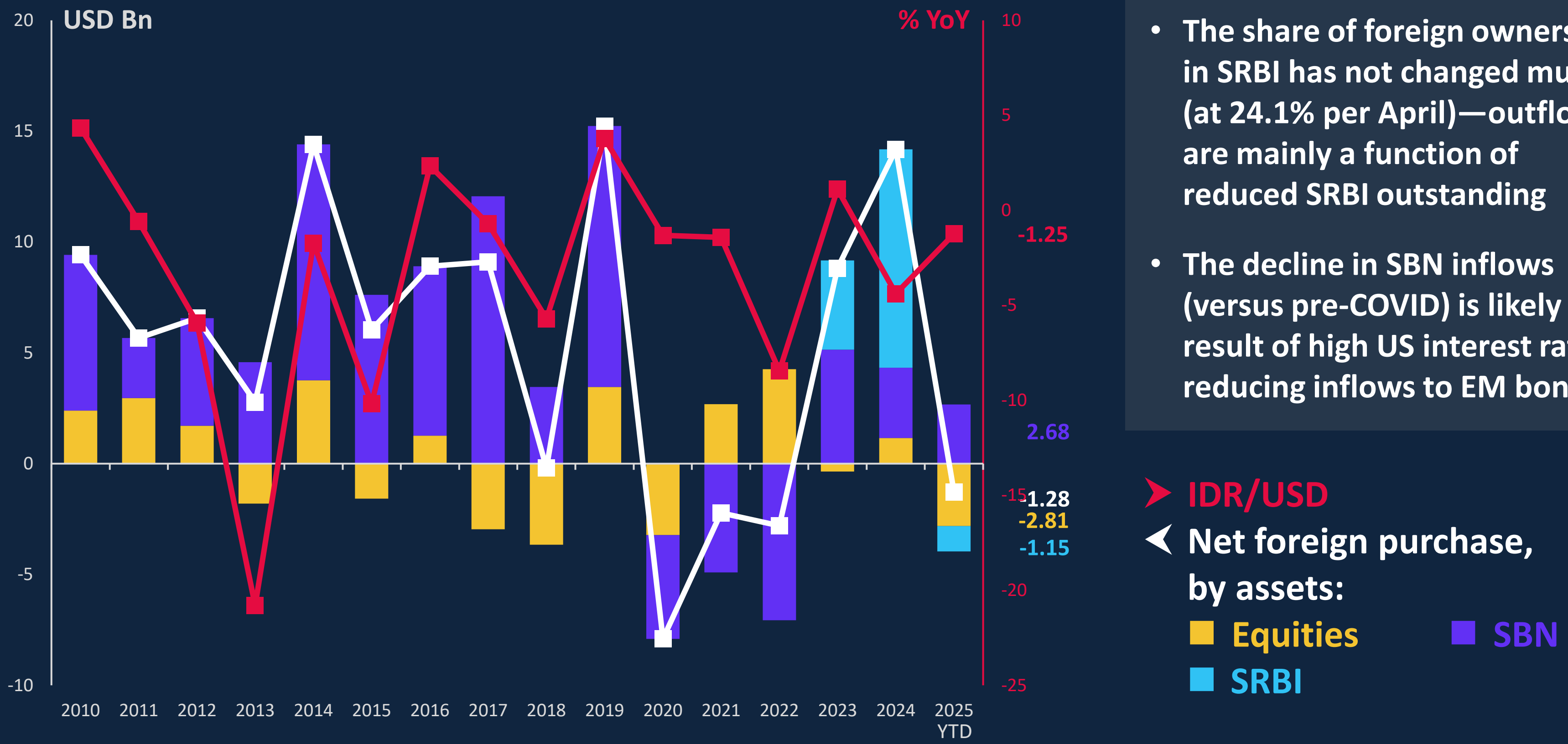
- IndONIA typically spikes during Lebaran holidays due to cash demand, but the spike in 2025 took it (briefly) higher than even BI's lending facility (LF)
- Nearly-as-sharp spikes in 2018 preceded significant IDR/USD depreciation and 175 bps hikes in BI Rate, but sharper spikes in 2024-25 is followed by rate cuts instead

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

** 2-week average*

Balancing act

Inflow to SBN—unfortunately, not as robust since the pandemic—would have to counter outflows from equities and SRBI

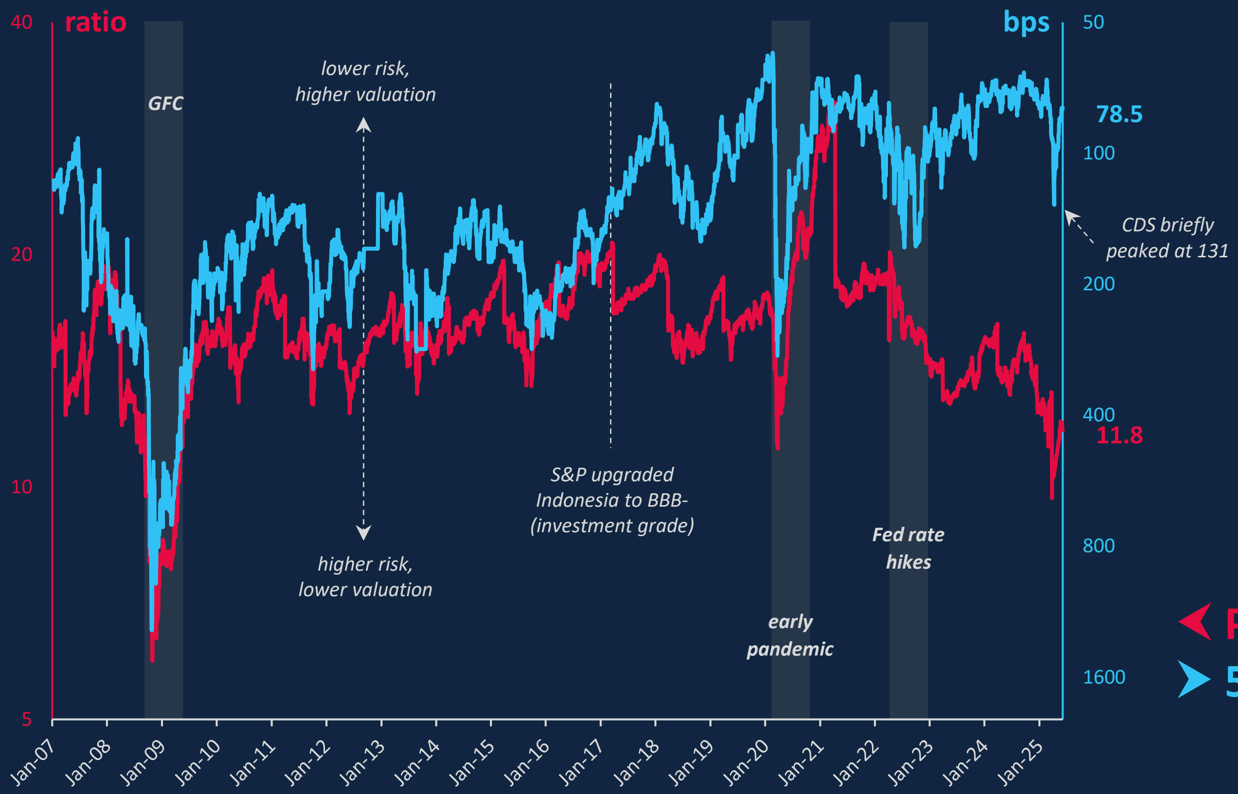


- **The share of foreign ownership in SRBI has not changed much (at 24.1% per April)—outflows are mainly a function of reduced SRBI outstanding**
- **The decline in SBN inflows (versus pre-COVID) is likely the result of high US interest rates, reducing inflows to EM bonds**

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

Diverging perceptions

Indonesian equities have cheapened, but risk premium on SBN has quickly normalized after a post-“Liberation Day” blip



- **Outside of extreme global shocks, Indonesia’s CDS have fluctuated in a relatively narrow range, thanks to a reputation for fiscal prudence**

P/E ratio, Jakarta composite

5Y CDS, Indonesia gov’t

Source: *Bloomberg, calculations by BCA Economic Research*

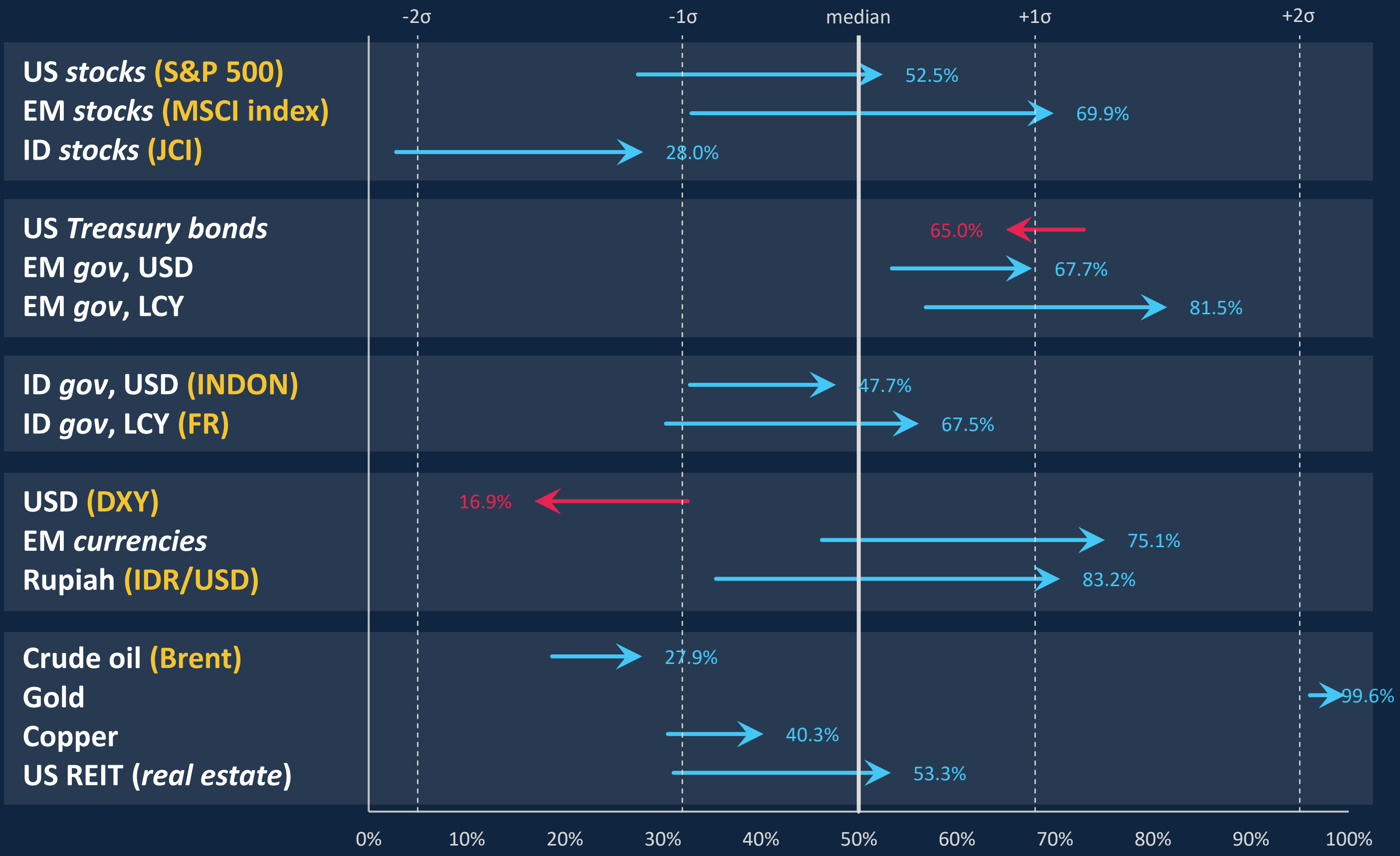
Indonesian assets improve, but still behind other EMs

Asset performance, in the year leading up to Apr-9 2025, vs. in the year leading up to Jun-3 2025

improved

worsened

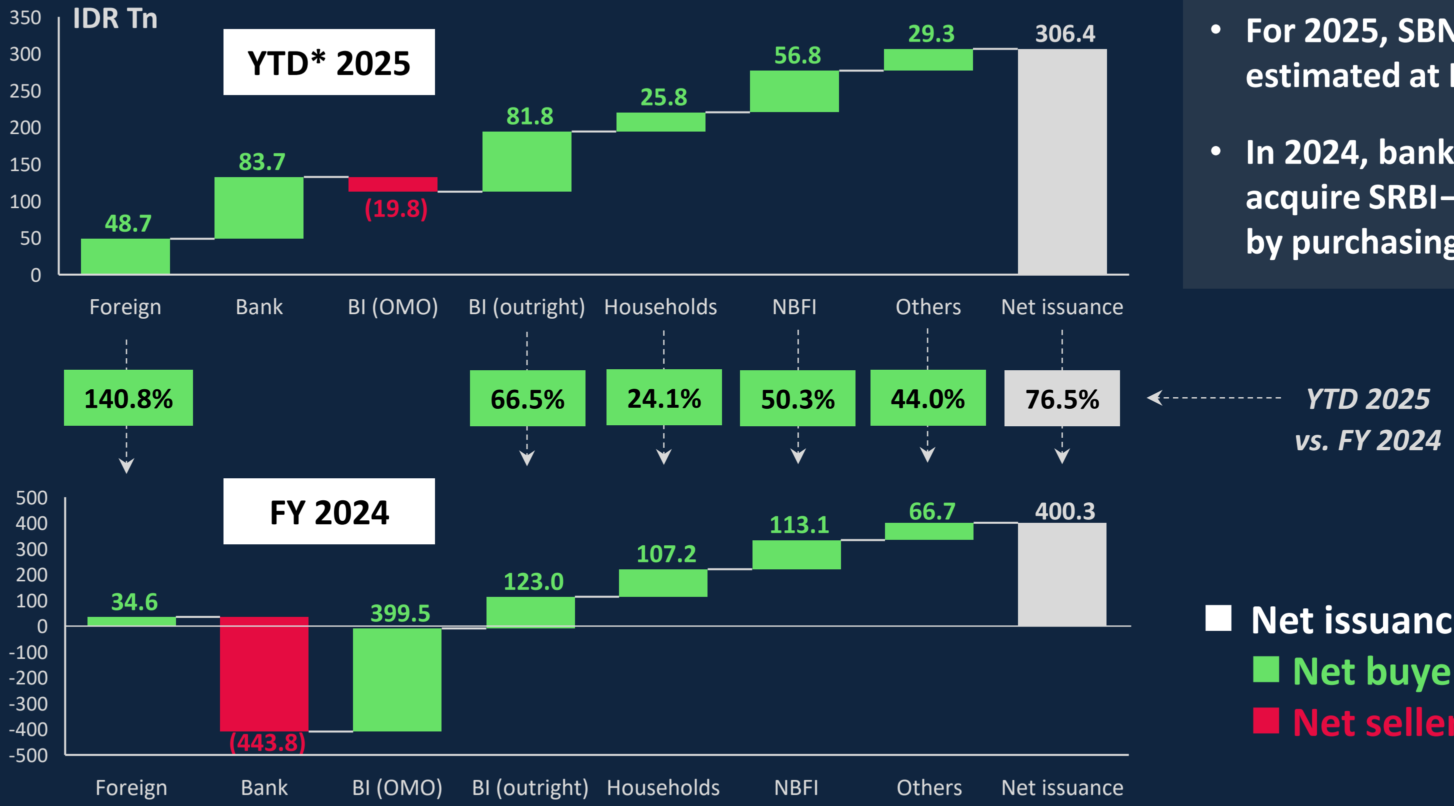
Compared to historical performance since 2011, expressed as percentile:
- *0% = worst*
- *50% = median*
- *100% = best*



Source: *Bloomberg, calculations by BCA Economic Research*

Banking on foreign demand

Robust foreign demand YTD—plus some non-OMO purchase by BI—has offset weaker domestic non-bank demand for SBN



- **For 2025, SBN net issuance are estimated at IDR 600-700 Tn**
- **In 2024, banks sold off SBN to acquire SRBI—in turn, BI offset this by purchasing SBN via OMO**

Net issuance of tradable SBN:

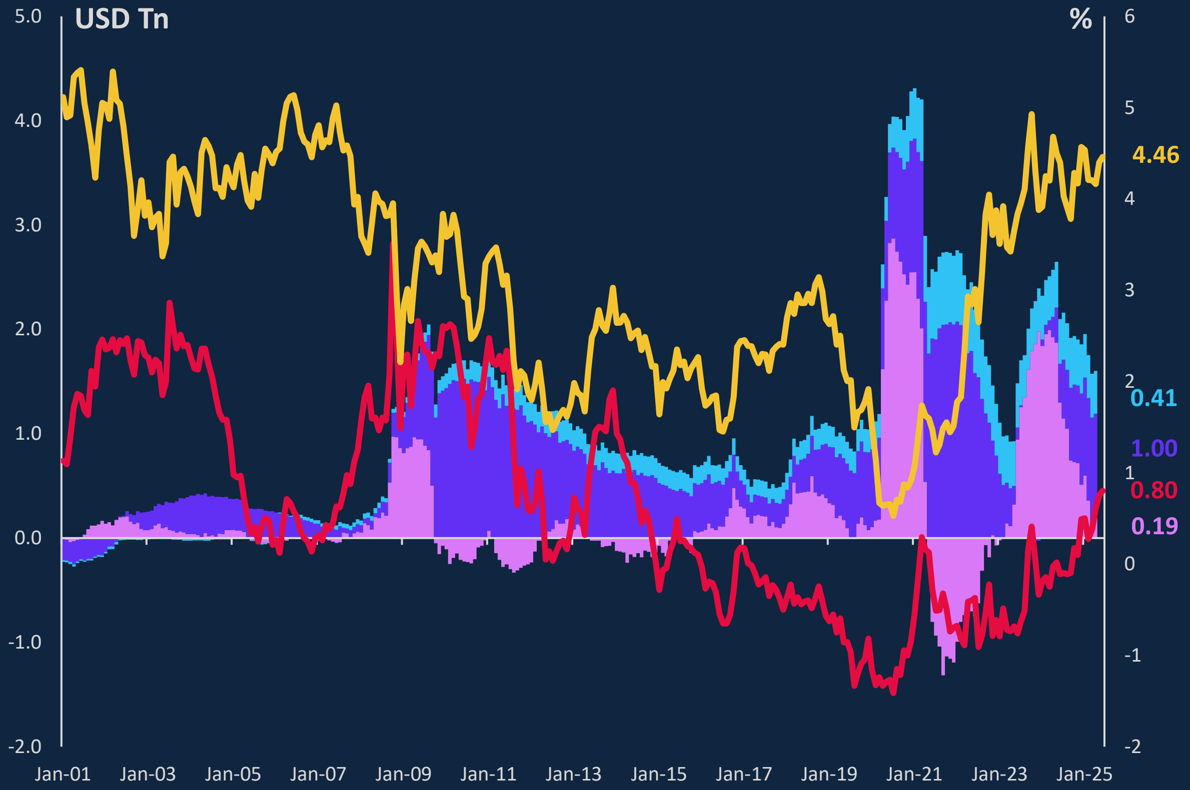
Net buyers

Net sellers

Source: *MoF, BCA Economic Research*

America's short-termism ...

In recent years, UST issuance has tended to shift towards short-term Bills—which may continue given the increasing term premia



- **Between 2023 and H1-24, two-thirds of UST net issuance was in T-Bills (the so-called "activist Treasury issuance" or ATI)**
- **ATI probably explains how US yield curves have flattened/ inverted in recent years without being a harbinger of recession**

UST net issuance, last 12M:

- **Bills (1Y or less)**
- **Notes (2Y-10Y)**
- **Bonds (more than 10Y)**

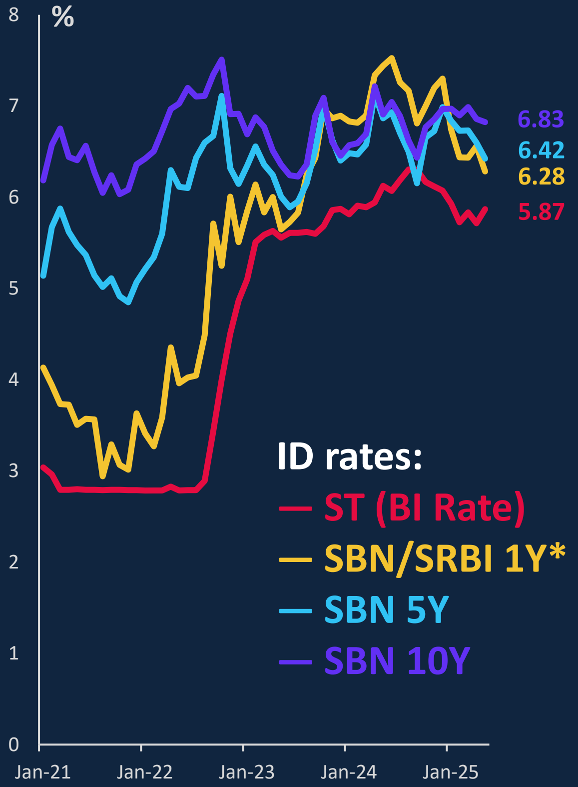
UST 10Y yield

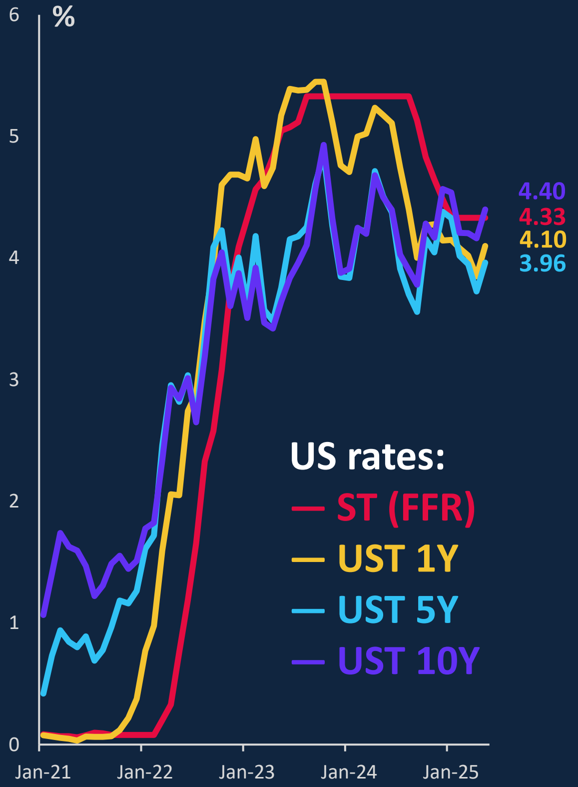
UST 10Y term premium (ACM)

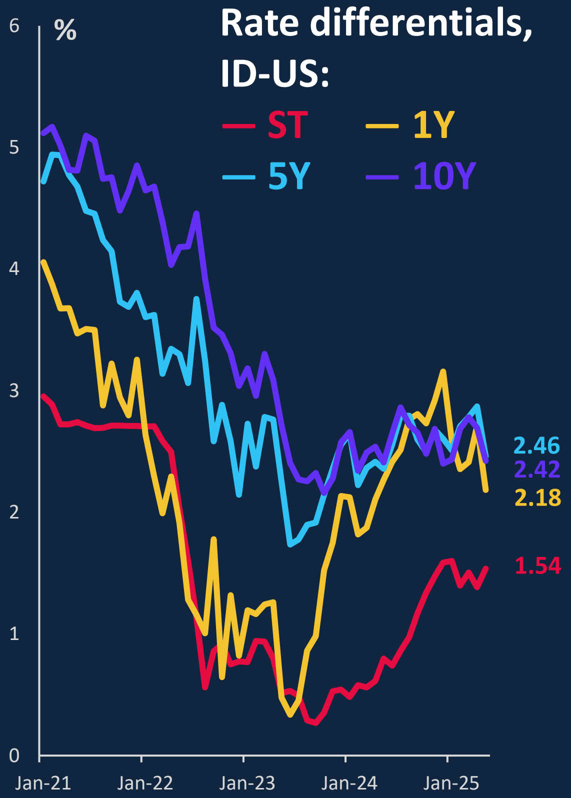
Source: *Bloomberg, BCA Economic Research*

... forces Indonesia to focus on the short-end, too

ID-US rate differentials have been compressed at the long-end, but comparatively high on the shorter-end—SRBI still needed?





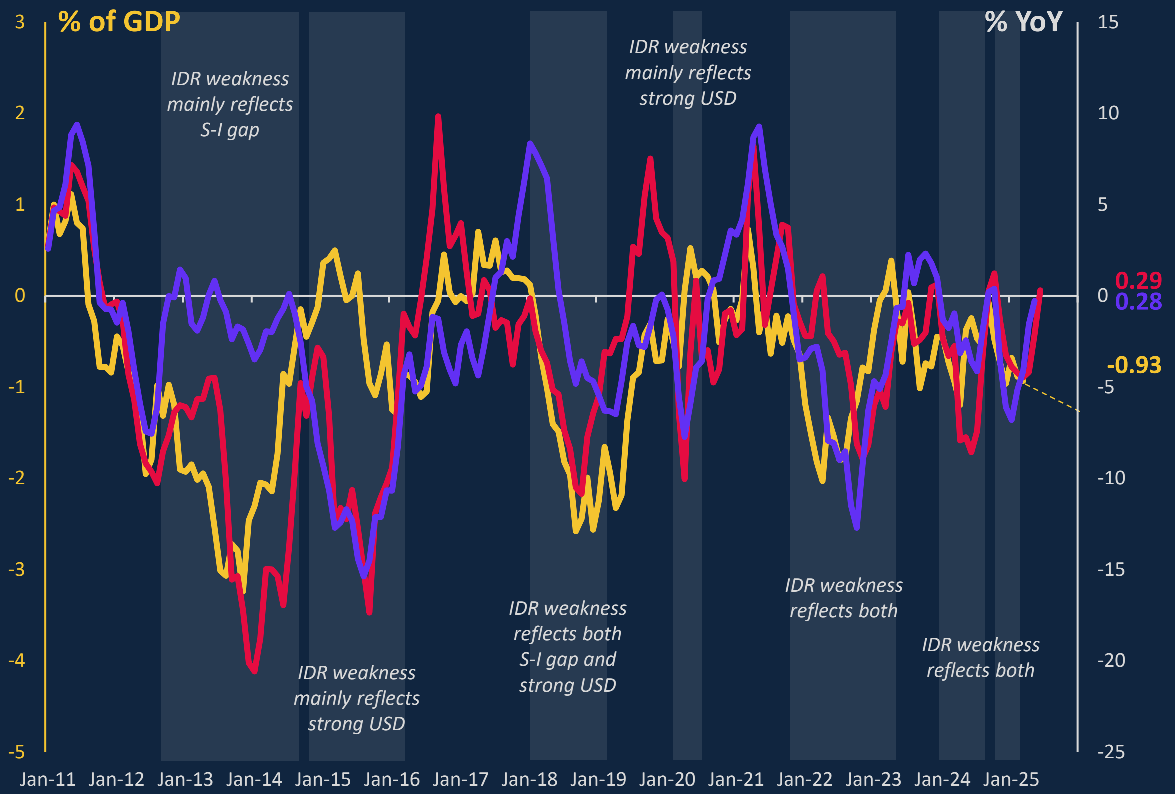


Source: *Bloomberg, BI, calculations by BCA Economic Research*

** using SRBI starting from Sep-23*

One out of two ain't bad

Liquidity gap may persist for longer, but its impact on the Rupiah may be masked—at least in part—by the weaker USD



- Of recent episodes of Rupiah depreciation, only the 2013-14 shock ("taper tantrum") was explained almost entirely by domestic S-I gap
- As nearly half of current S-I gap is from the government sector, closing it would require massive inflows to SBN or a shift to bilateral/multilateral loans

Net bank balance (NBB) plus foreign-owned SRBI, YoY change

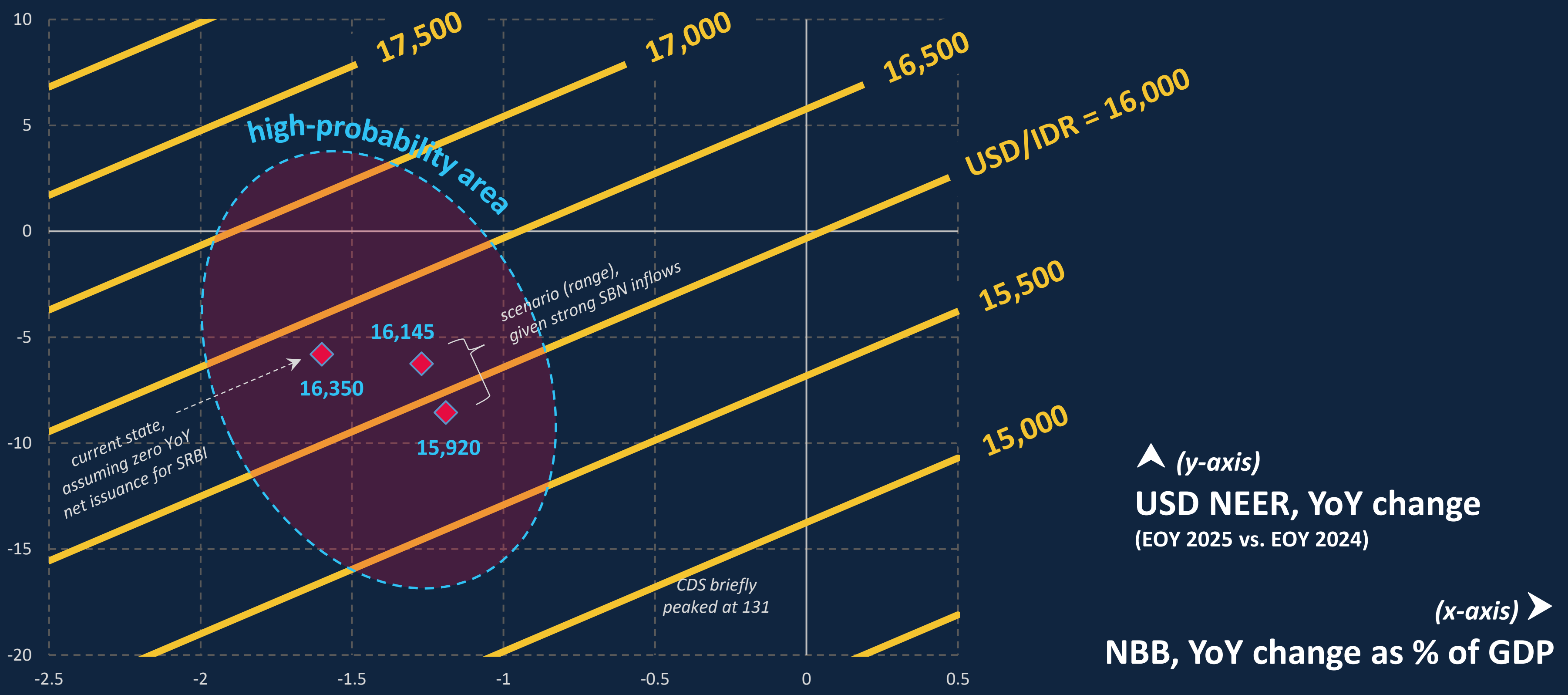
USD NEER, YoY change, *reversed*

IDR/USD

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

Now for the good news

We revise our baseline forecast for USD/IDR to 16,100 – 16,400 on average, but substantial uncertainty remains from the Dollar's volatility



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

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	4.8
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	5.7
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	4996
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.0
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	5.00
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	7.02
USD/IDR exchange rate							
- average	14,141	14,529	14,297	14,874	15,248	15,841	16,350
- end of year	13,866	14,050	14,262	15,568	15,397	16,102	16,625
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-1.0

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*

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Thank You