Questions about Momentum

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Summary

- Several real sector indicators for July suggest that growth momentum could carry over into the third quarter, despite risks from the economic slowdown in advanced economies.
- Market sentiment towards an increasingly dovish Fed eases the pressure on BI to maintain its accommodative monetary policy.
- The transmission of policy rate cuts and broad money growth to a recovery in productive credit occurs with a lag of 2-3 quarters, with a more gradual pass-through for investment credit.

Clearer Skies Ahead?

- The Law of Conservation of Momentum states: "If no net external force acts on a system, the total momentum of that system remains constant." The economic parallel leads to the million-dollar question: will the powerful momentum built in Q2 (5.12% YoY real GDP growth) persist through Q3, or will external forces derail this trajectory? It's time for a quick scoring.
- In July, **several real sector indicators showed signs of improvement**. Preliminary data suggests retail sales growth accelerated to 4.8% YoY in July, a significant increase from 1.3% YoY in June. Manufacturing PMI, also rose to 49.2 in July from 46.9 in the previous month, indicating a slower contraction. Other improving indicators included car sales (which accelerated, though year-on-year growth remains negative), the consumer confidence index, and our internal big data, which tracks both consumer spending and business revenues.
- The data we've mentioned are backward-looking, but what does the market expect next? An analysis of price action across key financial assets, including equities, bond yields, the exchange rate, and CDS spreads, reveals a consistent signal: the market is pricing in an improved domestic outlook ***(see Chart 1).***
- Admittedly, other factors are at play, such as the recent MSCI rebalancing and expectations for a more dovish Fed. Nevertheless, it is fair to conclude that, at least when compared to the period prior to the Q2 GDP release, **there has been a notable improvement in market sentiment**, regardless of the precise catalyst.
- Turning to the global trend, the picture is largely unsupportive. Economic growth in both China and the Eurozone decelerated in Q2. The US economy remains relatively

solid; however, its Q1 performance was an anomaly, artificially inflated by companies front-running anticipated tariffs. More importantly, forward-looking expectations for the US are now pointing to a slowdown.

- However, a positive development emerged from the latest US CPI print (2.7% vs 2.8% expected), which has bolstered expectations for a more dovish Fed cuts (2-3x this year), despite a higher PPI print (3.3% actual vs 2.5% expected). **This should be especially fortunate for BI**, which now faces lower tension between its credit growth and FX stability target.
- Furthermore, U.S. markets have responded to the dovish Fed sentiment with a pronounced risk-on rally. For the U.S. consumer, this creates a favourable dynamic. The negative impact on purchasing power, stemming from a weaker Dollar and potential tariffs, is being offset by the wealth effect generated from capital gains.
- Essentially, the market is interpreting this development as an US soft-landing scenario, a view corroborated by the recent behaviour of the yield curve; the 10Y-3M spread, for instance, is now less inverted than it was in early July. This soft-landing scenario represents the most constructive outcome for emerging markets as well.

All in Good Time

- We now turn to our domestic credit market, particularly regarding the speed of productive loans. In June 2025, working capital loan growth decelerated to 4.3% YoY, down from 4.5% YoY in May. Similarly, investment loan growth eased to 12.5% YoY, compared to 13.4% YoY in the prior month. These slowdowns have contributed to a lower headline credit growth ***(see Chart 2).***
- For the outlook ahead, while our earlier discussion centered on domestic real sector indicators, which primarily reflect the demand side of the economy, we now turn our focus to supply-side readiness. Fortunately, **broad money growth has started to show signs of a rebound in June *(see Chart 3)*.**
- This growth in broad money was primarily caused by the government's **higher-than-usual deficit spending in June**, due to the relaxed efficiency drive combined with June's stimulus package and capital expenditure ***(see Chart 4).*** If all goes according to plan, the government spending is on-track to rise significantly in the 2nd semester, resulting in sustained growth for broad money.

"The transmission from an increase in liquidity supply and an accommodative BI policy stance to credit growth involves a time lag"

- The transmission from an increase in liquidity supply and an accommodative BI policy stance to credit growth indeed involves a time lag. **Our econometrics model indicates that while the impact of broad**

money growth on working capital loan demand is near instantaneous, its effect on investment loans take approximately three quarters to materialize. Meanwhile, the pass-through **from a BI rate cut to lower bank lending rates for both working capital and investment loans generally takes two to three quarters**.

- Secondly, we consider the opportunity cost for the banking sector itself. The **spread between risk-adjusted loan yields and risk-free government bonds has been increasing** (latest data as of May), which increases the incentive for banks to extend credit ***(see Chart 5).*** This is further amplified by the near-instantaneous transmission of global dovish sentiment to domestic government bond yields. This transmission asymmetry allows banks to capitalize on stickier lending rates, especially as bond yields decline more rapidly, thereby protecting their profit margins.
- Third, **overall financing demand may be more resilient than headline figures suggest.** A detailed look at funding sources reveals that while bank loan growth has moderated, issuance of corporate bonds has accelerated.

Funding source (Tn IDR)	Jan-Jun 24	Jan-Jun 25
Corp bonds	4.4	27.1
Stocks	39.9	16.8
Credit	296.1	169.2
NBFI external loans	-19.5	-14.1

- A further possibility is that companies are increasingly relying on internal financing, such as retained earnings, to fund their expansion. This hypothesis is supported by our internal big data, which indicates a strengthening trend in business expenditure. This trend not only corroborates the strong investment component seen in the Q2 GDP data but also helps explain the resilience of business spending activity amidst the deceleration in productive credit growth.
- Despite all these initial movements, in economics, like in physics, a perpetual motion machine is impossible because no system is perfectly closed. However, the closest parallel is not achieved by simply applying more external energy, but by building a system that minimizes energy loss to friction. This is something we will gauge from government spending over the remaining five months of this year.

Chart 1

Cheering on the frontlines

The higher-than-expected GDP print in Q2 has buoyed greater market sentiment, potentially spilling over to firms' risk appetite.

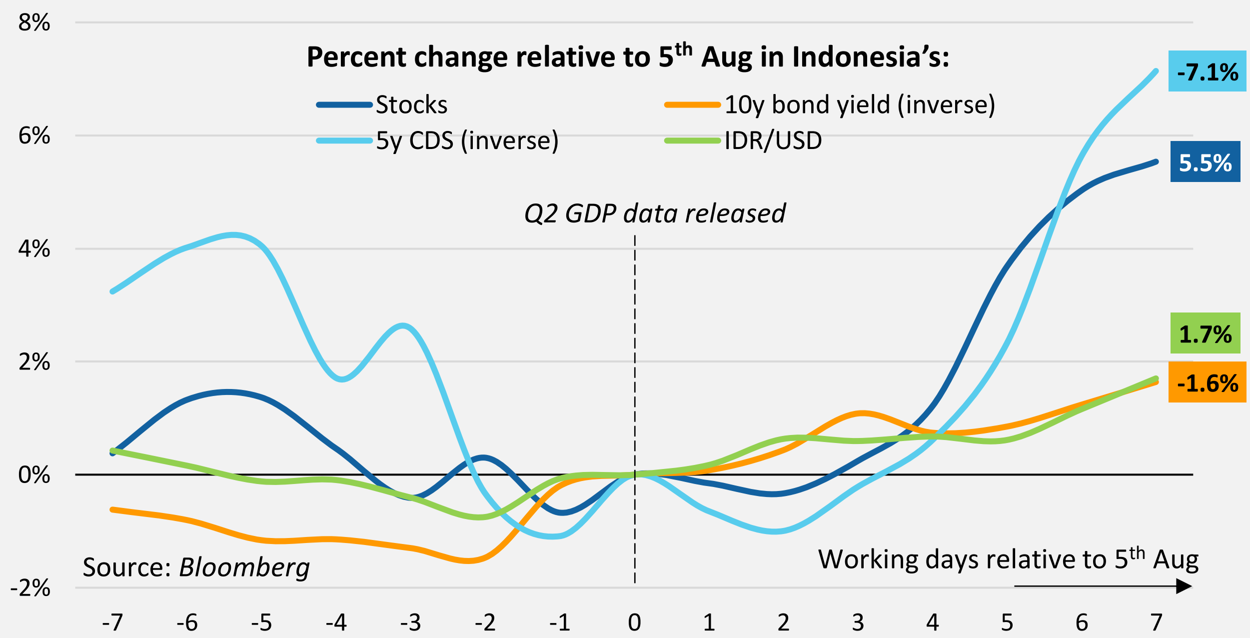


Chart 2

No funds for overtime

Slowdown in credit growth during Q2 are primarily concentrated in working capital loans, indicating reduced capacity utilization among firms.

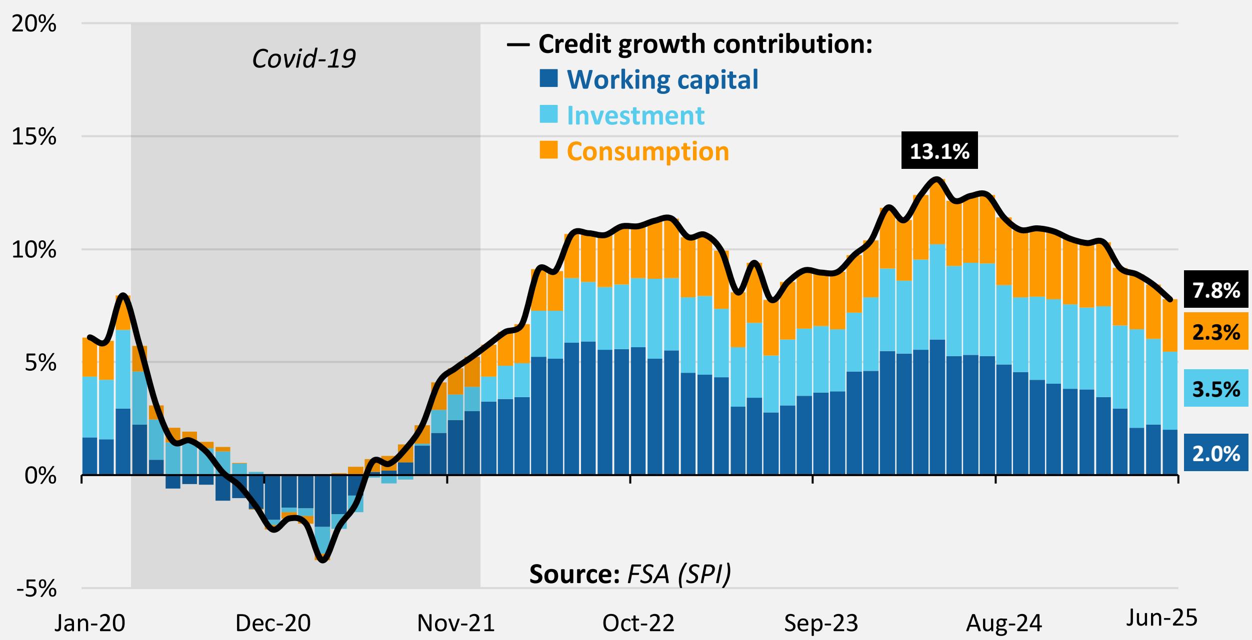


Chart 3

Waiting for new debtors

Recent spike in broad money growth has yet to be reflected to credit growth, possibly due to the lag time between liquidity supply and credit growth

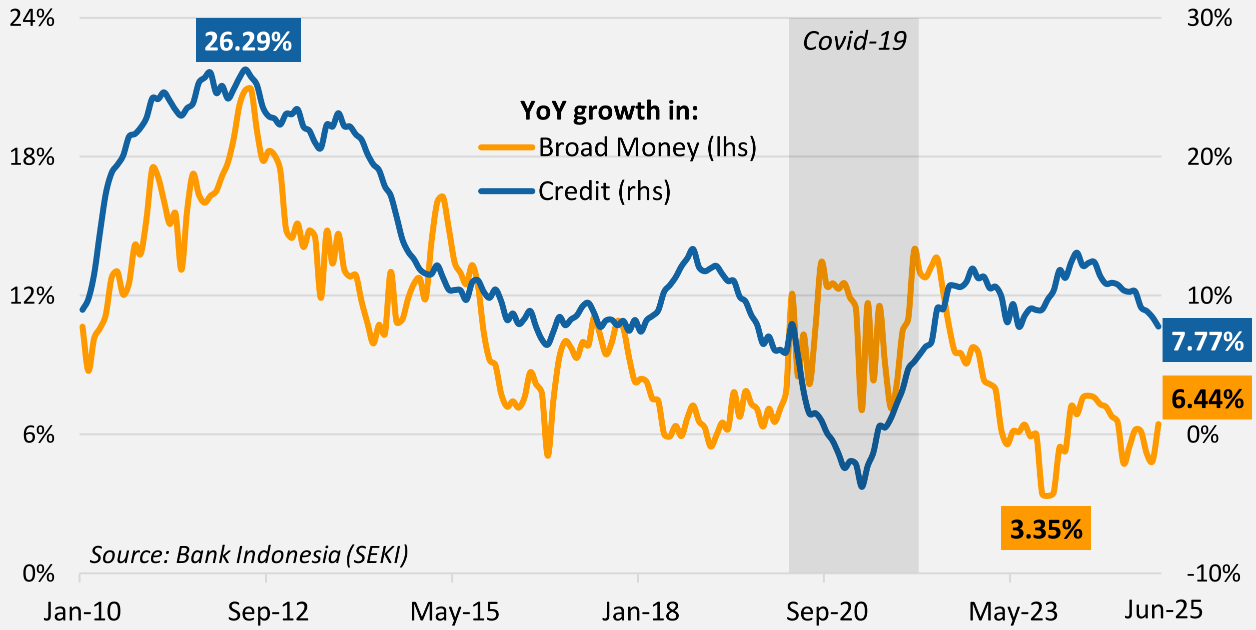


Chart 4

In tune with the public sector

Part of the rebound in broad money growth in June was the larger-than-usual deficit in June, while the fall starting in April-May owes to a smaller-than-usual deficit.

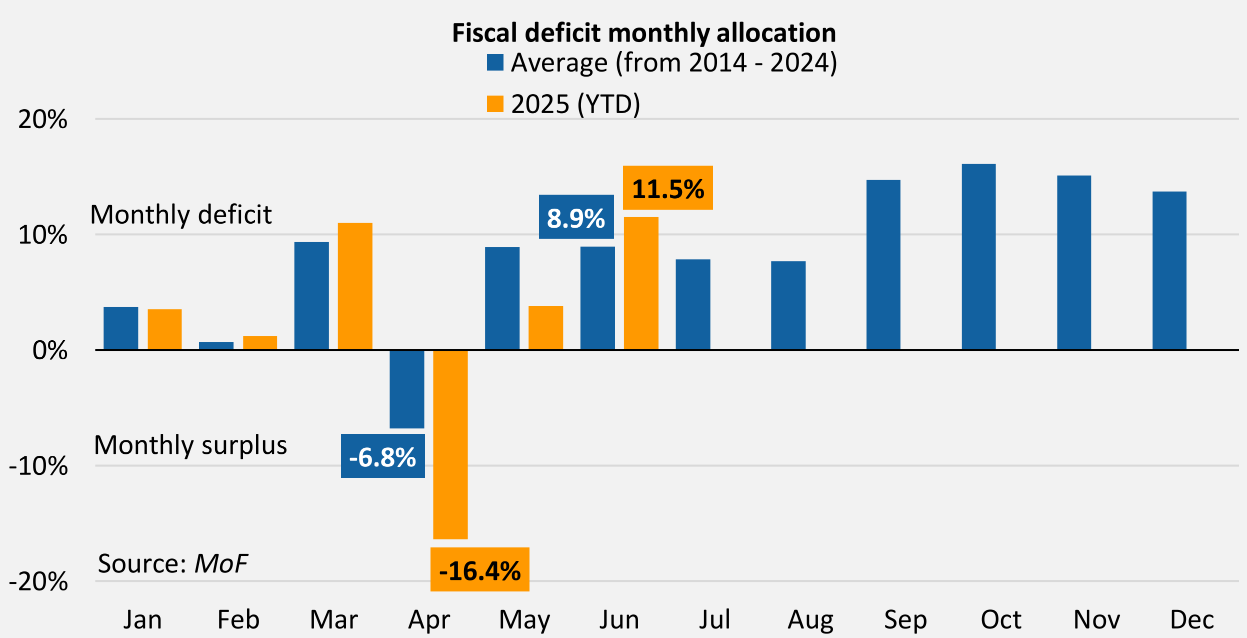
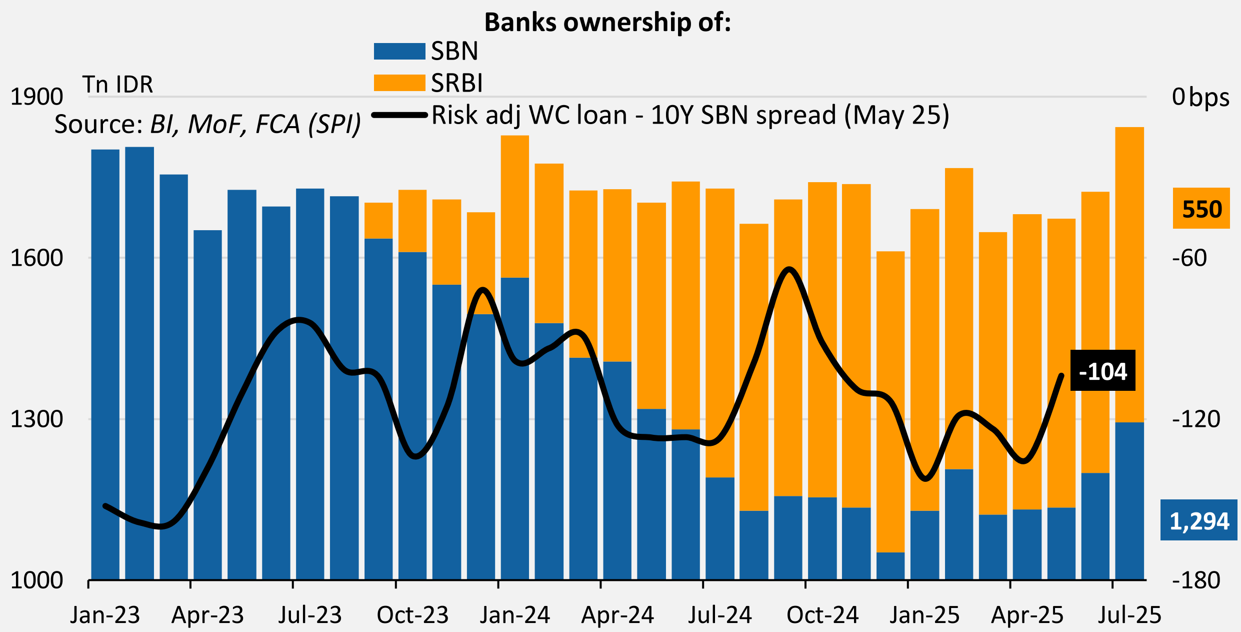


Chart 5

On the rise again

Increased liquidity so far has resulted in higher ownership of safe assets. However, higher spread between risk adjusted WC loan and SBN can incentivize banks to accelerate credit growth.



Source: *BI, MoF, FCA (SPI)*

Economic Calendar

		Actual	Previous	Forecast*
01 August 2025				
ID	S&P Global Manufacturing PMI	49.2	46.9	48.5
ID	**Trade balance (Jun-25), USD Bn**	**4.11**	**4.3**	**4.0**
ID	**Inflation Rate YoY, %**	**2.37**	**1.87**	**2.1**
US	S&P Global Manufacturing PMI	49.8	52.9	49.5
US	Non Farm Payrolls, th	73	14	110
05 August 2025				
ID	**GDP Growth Rate YoY, %**	**5.12**	**4.87**	**5**
US	Trade balance, USD Bn	-60.2	-71.7	-61.4
06 August 2025				
EA	Retail Sales YoY, %	3.1	1.9	2.5
ID	Property Price Index YoY, %	0.90	1.07	-
07 August 2025				
CN	Trade balance, USD Bn	98.24	114.77	117.3
ID	**Foreign Exchange Reserves, USD Bn**	**152**	**152.6**	**-**
08 August 2025				
ID	Consumer Confidence	118.1	117.8	118.4
ID	Motorbike Sales YoY, %	-2.0	-0.3	-
09 August 2025				
CN	Inflation Rate YoY, %	0.0	0.1	-0.1
11 August 2025				
ID	Retail Sales YoY, %	1.3	1.9	1.7
ID	Car Sales YoY, %	-18.4	-22.6	-
12 August 2025				
US	Inflation Rate YoY, %	2.7	2.7	2.7
15 August 2025				
CN	Retail Sales YoY, %	3.7	4.8	5.0
US	Retail Sales YoY, %		3.9	3.5
20 August 2025				
ID	**BI-Rate Decision, %**		**5.25**	**-**
21 August 2025				
ID	Loan Growth YoY, %		7.77	-
22 August 2025				
ID	Current Account, (USD Bn)		-0.2	0.5
ID	M2 Money Supply YoY, %		6.5	-
29 August 2025				
US	PCE Price Index YoY, %		2.6	2.6

*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	1.80
UK	4.00	Aug-25	0.40
EU	2.15	Jun-25	0.15
Japan	0.50	Jan-25	-2.80
China (lending)	2.00	Sep-24	4.35
Korea	2.50	May-25	0.40
India	5.50	Jun-25	3.95
Indonesia	5.25	Jul-25	2.88
Money Mkt Rates	**14-Aug**	**-1 mth**	**Chg (bps)**
SPN (1Y)	5.08	5.57	-48.6
SUN (10Y)	6.36	6.58	-21.4
INDONIA (O/N, Rp)	4.81	5.14	-32.4
JIBOR 1M (Rp)	5.87	6.13	-26.9
Bank Rates (Rp)	**May**	**Apr**	**Chg (bps)**
Lending (WC)	8.64	8.66	-1.72
Deposit 1M	4.86	5.02	-15.57
Savings	0.70	0.69	1.18
Currency/USD	**14-Aug**	**-1 mth**	**Chg (%)**
UK Pound	0.739	0.745	0.78
Euro	0.859	0.857	-0.14
Japanese Yen	147.8	147.7	-0.03
Chinese RMB	7.182	7.172	-0.13
Indonesia Rupiah	16,110	16,245	0.84
Capital Mkt	**14-Aug**	**-1 mth**	**Chg (%)**
JCI	7,931.3	7,097.2	11.75
DJIA	44,911.3	44,459.7	1.02
FTSE	9,177.2	8,998.1	1.99
Nikkei 225	42,649.3	39,459.6	8.08
Hang Seng	25,519.3	24,203.3	5.44
Foreign portfolio ownership (Rp Tn)	**Jul**	**Jun**	**Chg (Rp Tn)**
Stock	3,539.4	3,336.8	202.60
Govt. Bond	935.7	995.6	-59.93
Corp. Bond	4.7	4.3	0.39

Trade & Commodities	14-Aug	-1 mth	Chg (%)
Baltic Dry Index	2,039.0	1,783.0	14.4
S&P GSCI Index	534.9	545.8	-2.0
Oil (Brent, $/brl)	66.8	69.2	-3.4
Coal ($/MT)	111.1	115.6	-3.9
Gas ($/MMBtu)	2.78	3.20	-13.1
Gold ($/oz.)	3,335.4	3,343.5	-0.2
Copper ($/MT)	9,677.3	9,556.9	1.3
Nickel ($/MT)	14,819.8	14,849.2	-0.2
CPO ($/MT)	1,031.7	977.2	5.6
Rubber ($/kg)	1.72	1.69	1.8
External Sector	**Jun**	**May**	**Chg (%)**
Export ($ bn)	23.44	24.61	-4.78
Import ($ bn)	19.33	20.31	-4.82
Trade bal. ($ bn)	4.10	4.30	-4.60
Central bank reserves ($ bn)*	152.6	152.5	0.05
Prompt Indicators	**Jul**	**Jun**	**May**
Consumer confidence index (CCI)	118.1	117.8	117.5
Car sales (%YoY)	-18.4	-22.5	-15.1
Motorcycle sales (%YoY)	-0.5	-0.3	-0.1
Manufacturing PMI	**Jul**	**Jun**	**Chg (bps)**
USA	49.8	52.9	-310
Eurozone	49.8	49.5	30
Japan	48.9	50.1	-120
China	49.5	50.4	-90
Korea	48.0	48.7	-70
Indonesia	49.2	46.9	230

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	5.0
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.2
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5100
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.2
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	4.75
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	6.57
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,350
USD/IDR exchange rate (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*

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