

When high tides forced to find alternative paths

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Summary

- Rising input costs and uncertain demand may further decelerate private loan growth, meaning that liquidity creation may remain concentrated in the public sector.
- Lower private demand for loans, along with more limited monetary operations, could complicate banks' ability to exercise their intermediary function.
- Excess liquidity within the domestic banking system may create robust demand for government debt.

- All eyes remain fixed on the Middle East as the US-Israel war against Iran enters its 51st day. Oil prices swinging sharply throughout the weekend, as the continued US blockade of Iranian ports prompted the Iranian government to cancel the reopening of the Strait of Hormuz, less than 24 hours after announcing the decision. News of peace deals remains asymmetric, as the US government is preparing to send another envoy to Islamabad (where the peace negotiation was held), while Iran's state news agency reported no decision by the Iranian government to participate in the renewed negotiations.
- The Trump administration's eagerness to strike a peace deal echoes its weakening position ahead of the midterm elections to be held next November. Some major swing states have reported fuel prices above USD 4/gal, which often translates negatively to the sitting

President's favourability rating. Iran's strategy to exert pressure on the Trump administration by slow-walking the peace talks suggests that oil prices may remain volatile until after Q3-2026, which may see crude oil prices averaging USD 86.2-92.2/bl in 2026, potentially adding Rp 114.16-154.96 Tn to Indonesia's deficit spending.

- Given this risk, the decision to substantially increase the prices of commercial aviation fuels and high-octane fuels is understandable. However, while the government has been careful to balance the trade-off between households' purchasing power and energy affordability within fiscal constraints, energy availability in the industrial sector has yet to attract a similar level of focus, with recent manufacturing PMI data showing Indonesia's manufacturing sector as one of the hardest-hit sectors amid the ongoing oil shock.

Running short of options

- The government's decision to prioritise household consumption over industrial supplies seems to reflect experiences from the previous energy supply shock. The post-COVID pent-up export

demand allowed Indonesia's manufacturing sector to sustain its expansion trend before eventually returning to contraction territory in mid-2024, despite the initial shock from the

outbreak of the Russia-Ukraine war. Domestic demand was also in a post-pandemic recovery phase (at least before the drop due to the subsidised fuel price hike in September 2022), which encouraged domestic manufacturers to absorb higher input costs and continue producing.

- Alas, the current domestic macroeconomic conditions hardly resemble the uptrend observed in 2022. Domestic aggregate demand remains uncertain, as personal income continues to lag GDP growth, while the household sector exhausts its net bank balances to fund consumption during the last Ramadan period.
- Higher US import tariffs and China’s lower growth target further downgrade the outlook for demand, strengthening the case for producers to scale down their output, especially with prices of energy and other industrial inputs rising following the Iran war. **The current conditions, then, may echo the situation in 2013 rather than in 2022, when oil prices rose amid a sluggish global growth outlook, resulting in lower demand for loans as domestic producers sat through demand and supply shocks (see Chart 1).**
- Expansive fiscal spending should help to fill some gaps in domestic aggregate demand, which the government appears to have been doing to a greater degree (see Chart 2). Alas, **higher deficit spending has yet to inspire greater liquidity creation within the private sector**, leading to a slowdown in broad money (M2) growth in February 2026. This opposing trend signals a lower spillover effect from public sector expenditures to liquidity creation within the private sector.
- In other words, liquidity created by the public sector’s net expenditures may flow but

“BI’s all-out efforts to boost loan growth may risk liquidity imbalance in the banking sector”

ultimately pool in private sector deposits (and partially into foreign exporters’ deposits, given the high import content of some government expenditures, such as the energy subsidy programme), rather than sloshing around in the banking system as new loans.

- **This situation highlights the challenges banks currently face in carrying out their intermediary function, as weak loan demand removes a key channel for banks to channel excess liquidity.** At the same time, Bank Indonesia appears to continue to view weakening private credit demand as a supply problem, to the point that the central bank has begun to restrict its monetary operations to maintain more liquidity in the domestic banking system (see Chart 3).
- Unfortunately, BI’s all-out efforts to boost loan growth may push the banking sector towards imbalances, as banks appear to currently prefer to place excess liquidity anywhere but in the lending market. **The swelling outstanding in BI’s excess reserves facility highlights this problem, as banks willingly accept lower rates amid slowing credit demand.** This imbalance may also explain the chronically lower InDONIA rate (see Chart 4), which could incentivise banks to move away from the benchmark rate as a gauge for their lending rates.
- Or perhaps BI’s strategy of flooding the banking sector with liquidity is not exclusively targeted at boosting private loan growth. If the private sector refuses to consume and invest in their businesses, the unused liquidity may create robust demand for paper assets such as SBN, which has so far remained stable despite the widely expected spike in its supply. This consideration might be behind BI’s decision to lower its outright SBN holdings so far in April

Chart 1

Demand-side problems

Bank Indonesia continue to rely on supply-side solutions to boost loan growth, while banks are facing timid demand for loans

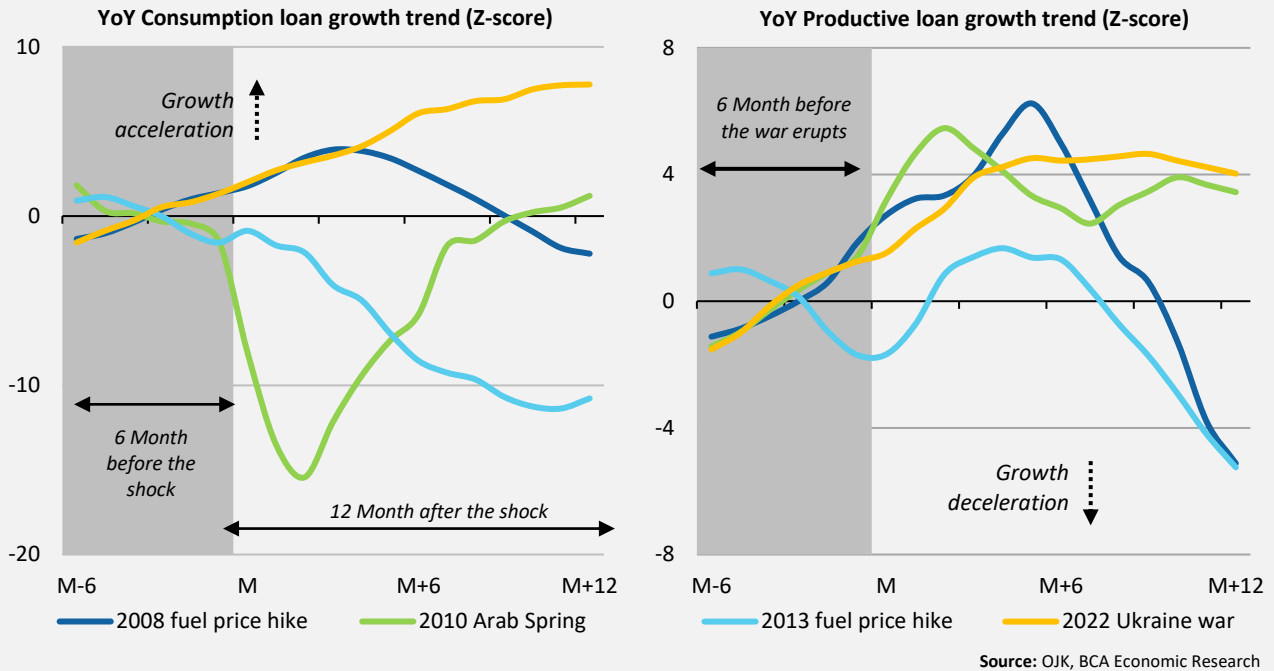
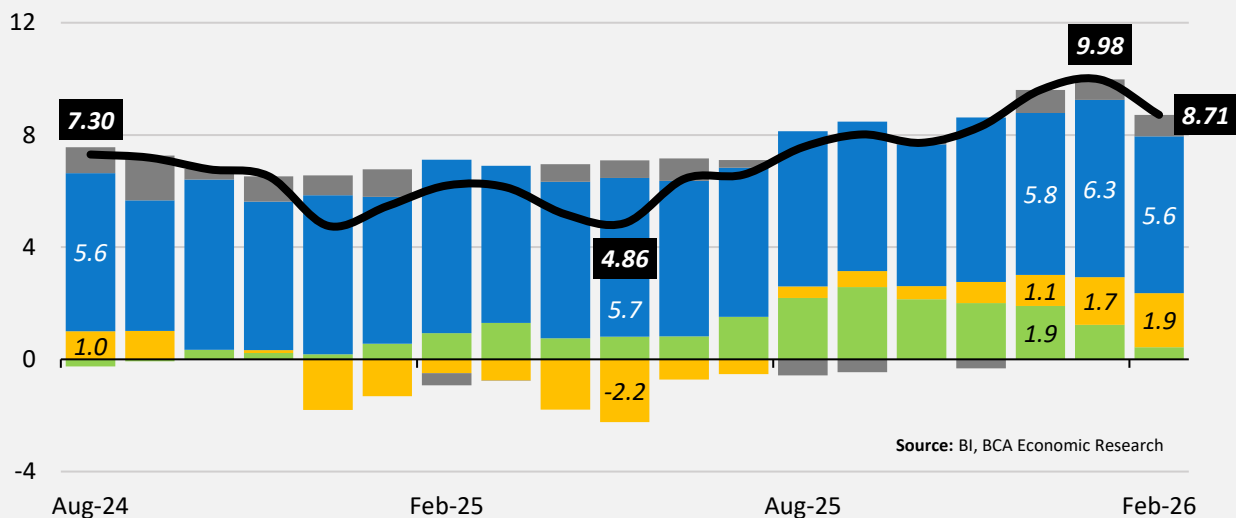


Chart 2

Pushing on a string

The government keeps pouring liquidity through higher deficit spending, yet Indonesia's M2 growth has been slowing again as private sectors cool down their demand for credit



Indonesia M2 growth (% YoY), by contributing factors:

- Net foreign assets
- Net claims on the government
- Claims on private sectors
- Others

Chart 3

Supply-side solutions

Bank Indonesia continue to rely on supply-side solutions to boost loan growth, while banks are facing timid demand for loans

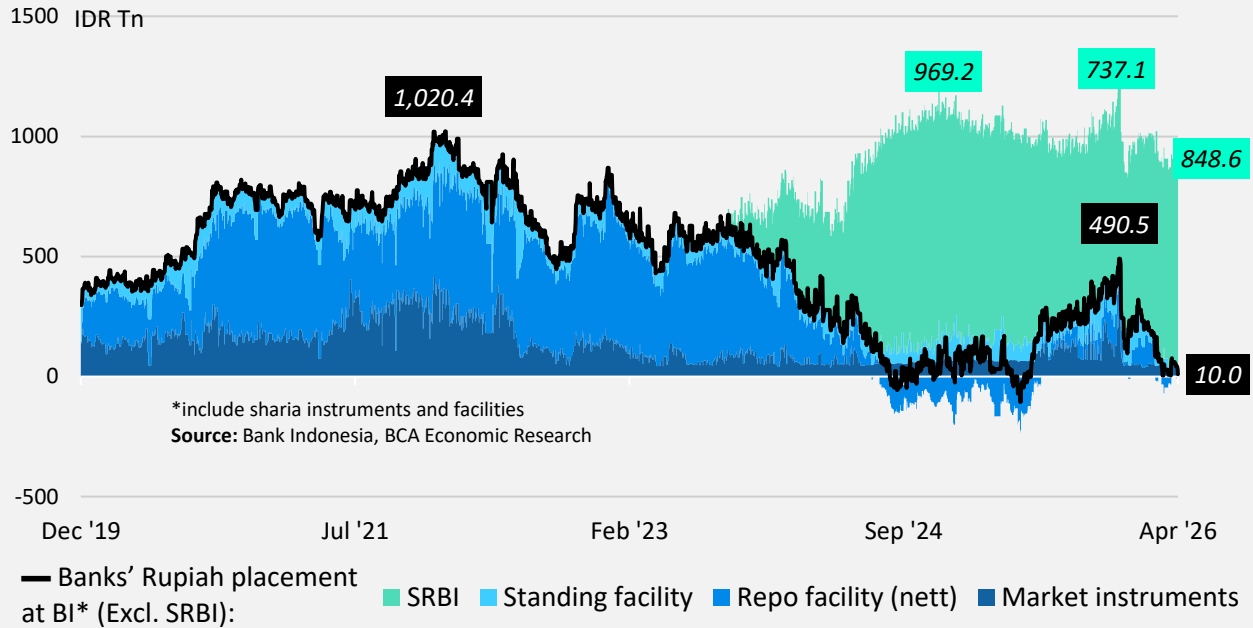
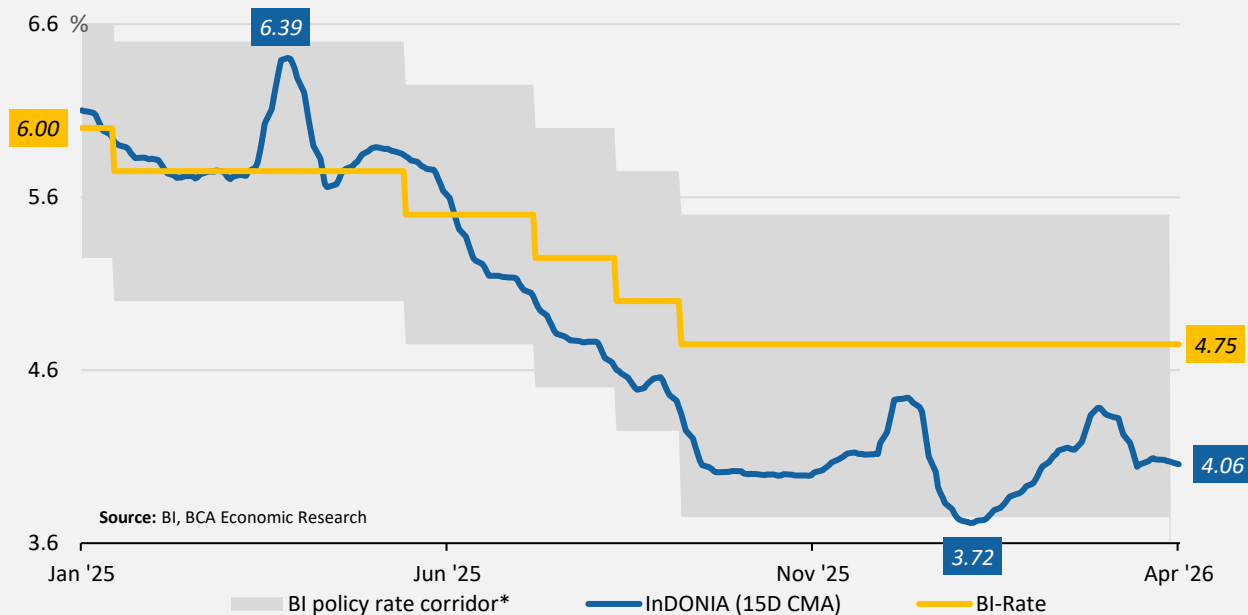


Chart 4

Chronically low

INDONIA rate has been persistently lower in recent periods, indicating imbalances in the overnight market that may discourage banks to use it as a benchmark for lending rate



Economic Calendar				
		Actual	Previous	Forecast*
02 April 2026				
US	Trade balance (Feb-26), USD Bn	-57.3	-54.7	-60.0
03 April 2026				
US	Non Farm Payrolls, th	178	-133	50
08 April 2026				
ID	Foreign Exchange Reserves, USD Bn	148.2	151.9	164
EA	Retail Sales YoY, %	1.7	2.1	1.8
09 April 2026				
US	PCE Price Index YoY (Feb), %	2.8	2.8	2.8
ID	Motorbike Sales YoY, %	-17.1	1.0	-
10 April 2026				
CN	Inflation Rate YoY, %	1	1.3	1.1
ID	Consumer Confidence	122.9	125.2	120
US	Inflation Rate YoY, %	3.3	2.4	3.2
ID	Car Sales YoY, %	-13.8	12.3	-
13 April 2026				
ID	Retail Sales YoY, %	6.5	5.7	5.9
14 April 2026				
CN	Trade balance, USD Bn	51.13	90.98	105
16 April 2026				
CN	Retail Sales YoY, %	1.7	2.8	3.5
21 April 2026				
US	Retail Sales YoY, %		3.7	2.4
22 April 2026				
ID	BI-Rate Decision, %		4.75	-
ID	Loan Growth YoY, %		9.37	7.5
23 April 2026				
ID	M2 Money Supply YoY, %		8.7	-
29 April 2026				
ID	Foreign Direct Investment YoY, %		4.3	-
30 April 2026				
US	Fed Interest Rate Decision, %		3.75	-
US	PCE Price Index YoY (Mar), %			3.3

*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	17-Apr	-1 mth	Chg (%)
US	3.75	Dec-25	0.45	Baltic Dry Index	2,567.0	2,024.0	26.8
UK	3.75	Dec-25	0.75	S&P GSCI Index	679.1	721.1	-5.8
EU	2.15	Jun-25	-0.45	Oil (Brent, \$/brl)	90.4	103.4	-12.6
Japan	0.75	Dec-25	-0.55	Coal (\$/MT)	127.5	140.8	-9.5
China (lending)	2.00	Sep-24	3.35	Gas (\$/MMBtu)	2.71	3.14	-13.7
Korea	2.50	May-25	0.30	Gold (\$/oz.)	4,830.3	5,005.6	-3.5
India	5.25	Dec-25	1.85	Copper (\$/MT)	13,281.9	12,661.5	4.9
Indonesia	4.75	Sep-25	1.27	Nickel (\$/MT)	17,908.5	16,988.3	5.4
				CPO (\$/MT)	1,123.1	1,158.8	-3.1
				Rubber (\$/kg)	2.03	1.99	2.0
Money Mkt Rates	17-Apr	-1 mth	Chg (bps)	External Sector	Feb	Jan	Chg (%)
SPN (1Y)	4.60	5.09	-48.5	Export (\$ bn)	22.17	22.16	0.05
SUN (10Y)	6.56	6.87	-30.9	Import (\$ bn)	20.89	21.20	-1.45
INDONIA (O/N, Rp)	3.91	4.73	-81.4	Trade bal. (\$ bn)	1.27	0.95	33.43
JIBOR 1M (Rp)	5.03	5.03	0.0	Central bank reserves (\$ bn)*	151.9	154.6	-1.73
Bank Rates (Rp)	Jan	Dec	Chg (bps)	Prompt Indicators	Mar	Feb	Jan
Lending (WC)	8.06	8.08	-2.00	Consumer confidence index (CCI)	122.9	125.2	127.0
Deposit 1M	4.46	4.54	-8.00	Car sales (%YoY)	-13.8	12.3	7.1
Savings	0.69	0.70	-1.00	Motorcycle sales (%YoY)	-17.1	1.0	3.1
Currency/USD	17-Apr	-1 mth	Chg (%)	Manufacturing PMI	Mar	Feb	Chg (bps)
UK Pound	0.740	0.749	1.20	USA	52.3	51.6	70
Euro	0.850	0.867	1.95	Eurozone	51.6	50.8	80
Japanese Yen	158.6	159.0	0.23	Japan	51.6	53.0	-140
Chinese RMB	6.818	6.885	0.98	China	50.8	52.1	-130
Indonesia Rupiah	17,190	16,985	-1.19	Korea	52.6	51.1	150
				Indonesia	50.1	53.8	-370
Capital Mkt	17-Apr	-1 mth	Chg (%)				
JCI	7,634.0	7,106.8	7.42				
DJIA	49,447.4	46,993.3	5.22				
FTSE	10,667.6	10,403.6	2.54				
Nikkei 225	58,475.9	53,700.4	8.89				
Hang Seng	26,160.3	25,868.5	1.13				
Foreign portfolio ownership (Rp Tn)	Mar	Feb	Chg (Rp Tn)				
Stock	3,208.6	3,864.0	-655.43				
Govt. Bond	848.9	875.4	-26.42				
Corp. Bond	6.2	5.1	1.08				

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

	2020	2021	2022	2023	2024	2025	2026E
Real GDP growth (% YoY)	-2.1	3.7	5.3	5.0	5.0	5.1	5.0
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	7.9
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5457
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	3.3
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	4.75
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	6.76
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,014
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	17,124
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	33.8
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-0.4

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time

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