

BI Policy:

New tools might be necessary

Keely Julia Hasim
Economist/Analyst

Barra Kukuh Mamia
Senior Economist

25 May 2023

Executive Summary

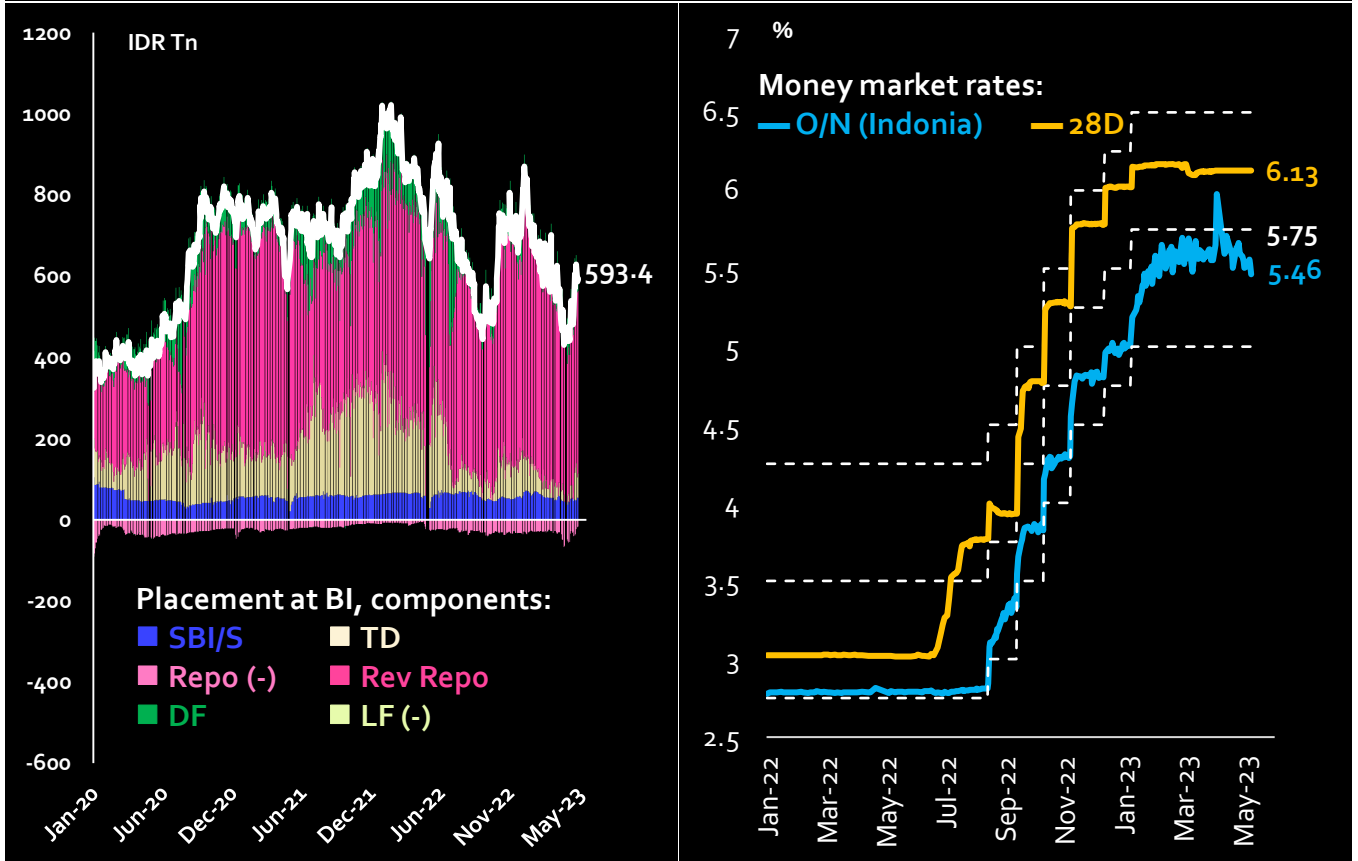
- BI maintained the BI7DRR at 5.75%, set against a strong Rupiah and slowing inflation.
- BI has done much, in terms of macroprudential policies as well as incentives, to stimulate lending for certain segments and sectors.
- Cutting the reserve requirement (GWM) or fiscal stimulus by the government may be preferred considering the global liquidity outlook remains uncertain and the Fed has not eased policy.

- Bank Indonesia (BI) kept its policy rate (BI7DRR) unchanged at 5.75% in its latest meeting, as expected. Despite a slight depreciation recently, the decision remains sound as the weakening comes from a (probably temporary) rise in USD's strength ahead of the June FOMC meeting. Neither is inflation an urgent concern, as price pressures normalize amid an influx of Chinese imports.
- With limited issues on the stability front, BI can afford to focus more on growth - and there are reasons to be concerned here despite the sterling numbers in Q1. Most notably, loan growth seems to be faltering, at only 8.1% per Apr-21 compared to 11.4% in Dec-22.
- This could be the result of supply factors within banks or demand factors in the real economy. The latter seems to be the main concern, as our spending and business revenue indices (Intrabel and Intrabiz BCA) are on a downward trend, quite apart from the temporary Ramadan/Lebaran effect.
- Slowing working capital loans also indicate a lack of appetite to expand among businesses following the strong rebound in 2022. Their "animal spirit" may be weakened by the uncertainty in the broader global economy, including the recent decline in commodity prices.
- From the supply perspective, loan rates have only modestly increased at around 50 bps, despite the 225 basis points rise in BI7DRR in the last hiking cycle. Banks' lending standards have also remained largely unchanged according to BI's survey results.
- Liquidity is a more complex issue. Banks' excess liquidity at BI remains considerable at around Rp 600 Tn, but deposit growth has slowed to 6.8%. There is also a distributional issue at play here, with smaller banks likely experiencing tighter liquidity conditions.
- BI has done much, in terms of macroprudential policies, to stimulate lending. The extension of LTV (loan-to-value) relaxation until the end of 2023 appears effective in driving auto loans,

while increasing the Inclusive Financing Ratio (RPIM) requirement to 25% this year should spur loans to MSMEs. BI's incentives to banks for financing 46 priority sectors is also at play, as is its "Operation Twist" to flatten the yield curve and encourage banks to trade higher volumes over margins.

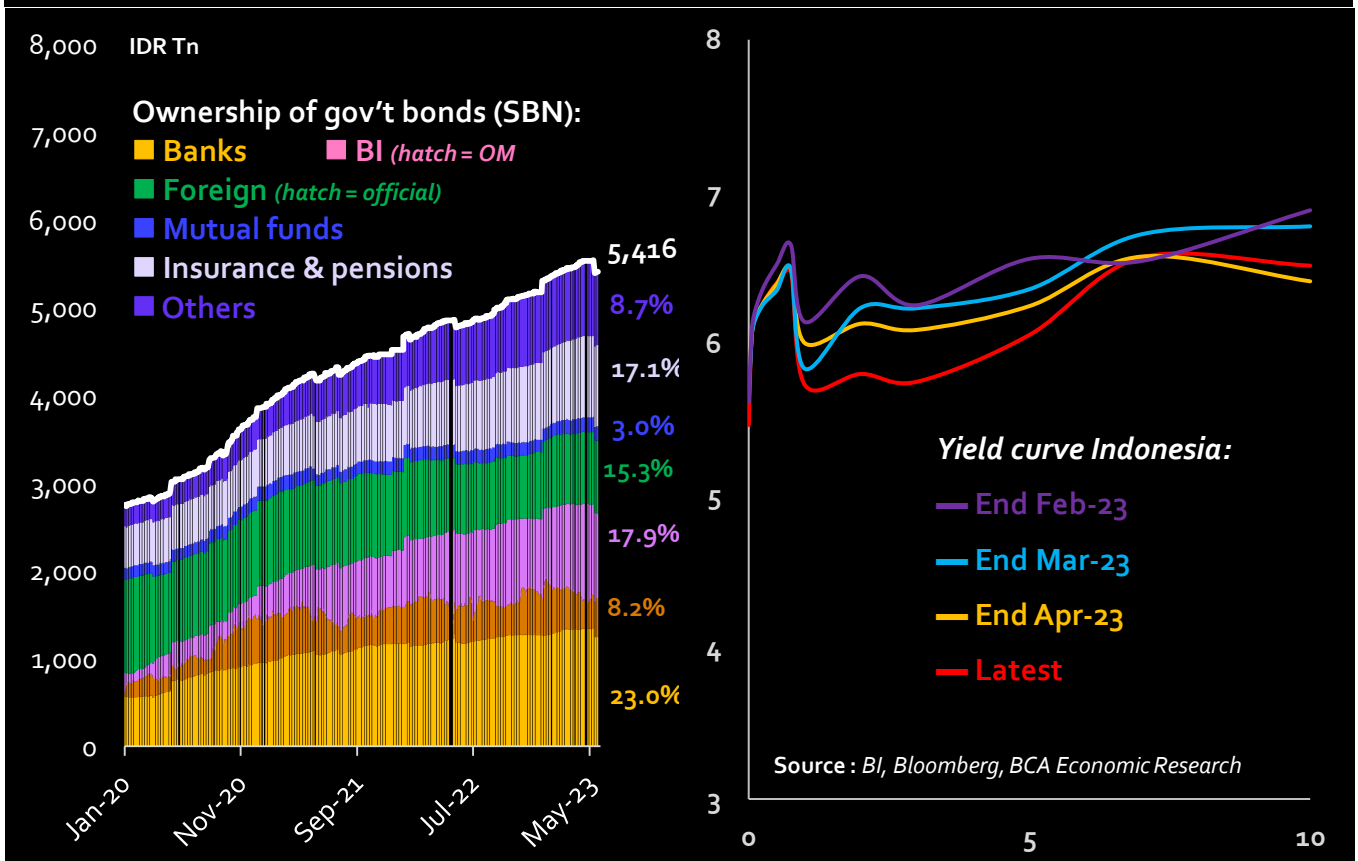
- However, if the issue is animal spirit and liquidity, these policies would probably have limited effectiveness. The choice would then fall between cutting rates or releasing the liquidity "bazooka", either by cutting the reserve requirement (GWM) or fiscal stimulus by the government. As we mentioned previously, the latter may be preferred as long as the global liquidity outlook remains uncertain and the Fed has not eased policy.

Panel 1. BI remains put amid ample domestic liquidity



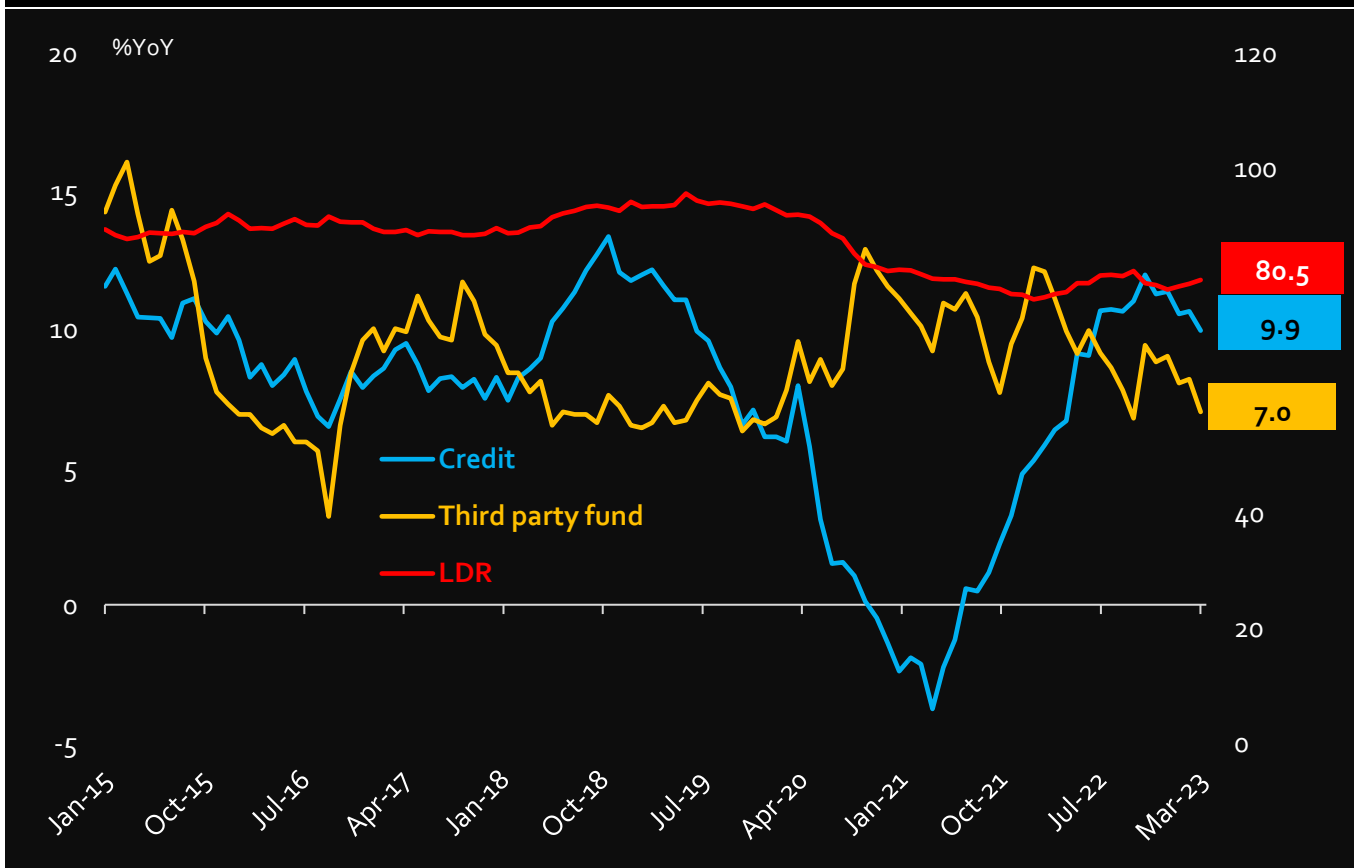
Source: BI, Bloomberg, BCA Economist

Panel 2. Foreign capital still flowing in, maintaining stable Indonesian yields



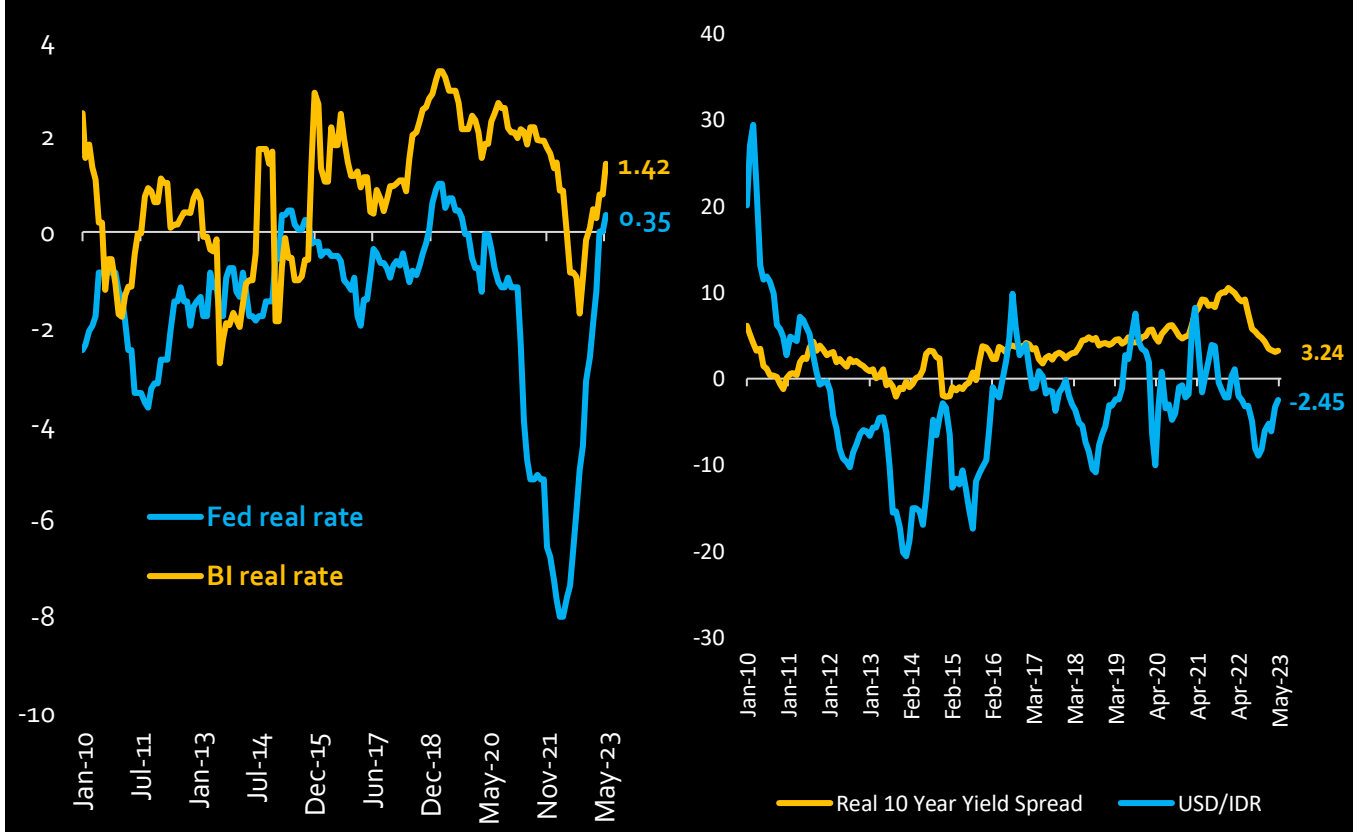
Source: BI, Bloomberg

Panel 3. Third-party fund and credit growth has moderated somewhat from 2022 pace



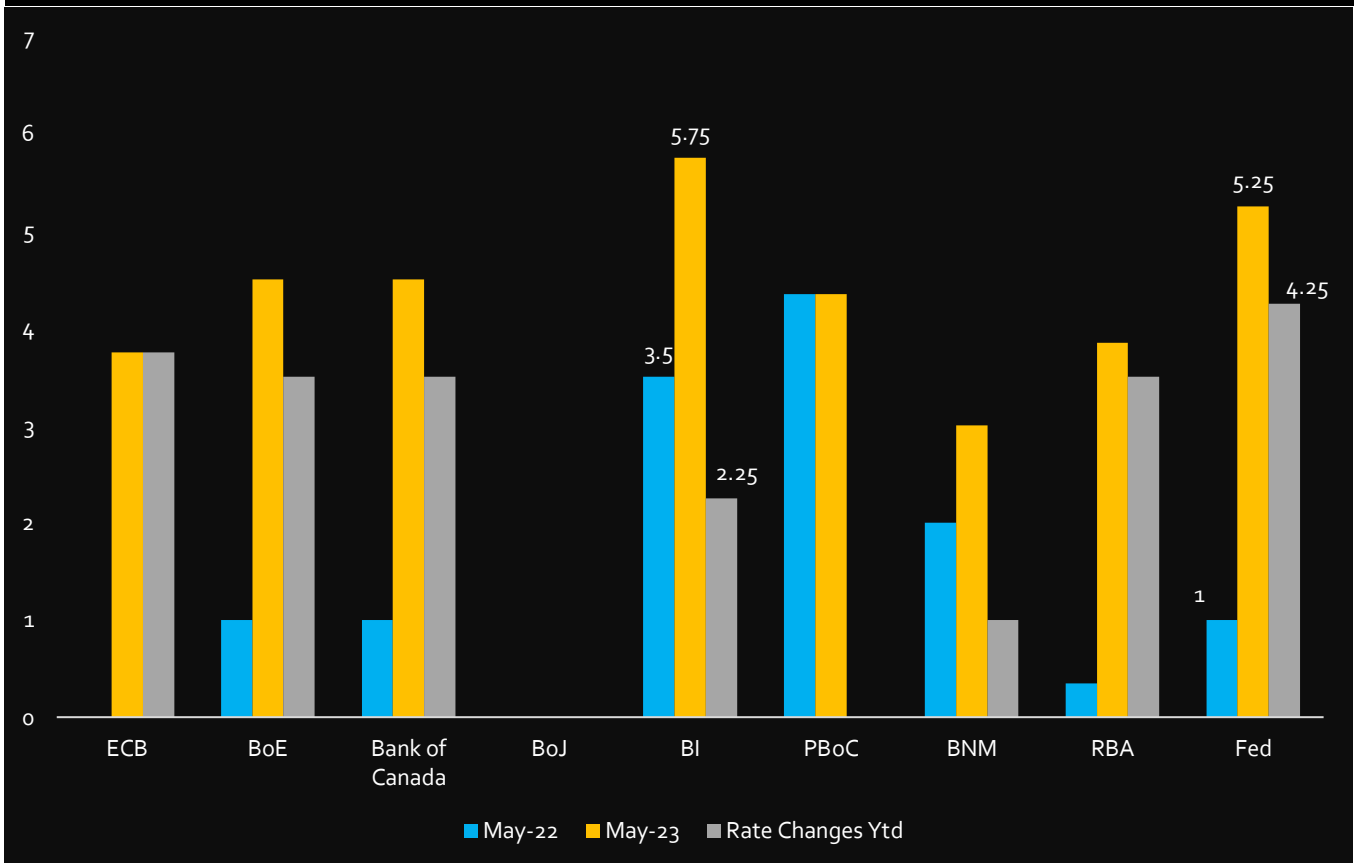
Source: BI, OJK, Bloomberg

Panel 4. The spread of ID-US assets narrowed, but the Fed pivot sentiment has drove IDR appreciation



Source: BI, Bloomberg

Panel 5. BI's total rate hikes of 225 bps is relatively modest compared to other central banks



Source: Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	24-May	-1 mth	Chg (%)
US	5.25	May-23	0.35	Baltic Dry Index	1,295.0	1,504.0	-13.9
UK	4.50	May-23	-4.20	S&P GSCI Index	551.2	573.9	-3.9
EU	3.75	May-23	-3.25	Oil (Brent, \$/bbl)	78.4	81.7	-4.0
Japan	-0.10	Jan-16	-3.60	Coal (\$/MT)	147.6	199.0	-25.8
China (lending)	4.35	May-23	4.25	Gas (\$/MMBtu)	2.25	2.20	2.3
Korea	3.50	May-23	-0.20	Gold (\$/oz.)	1,957.2	1,983.1	-1.3
India	6.50	Apr-23	1.80	Copper (\$/MT)	7,851.8	8,778.5	-10.6
Indonesia	5.75	May-23	1.42	Nickel (\$/MT)	20,522.0	24,394.5	-15.9
Money Mkt Rates	24-May	-1 mth	Chg (bps)	CPO (\$/MT)	762.3	944.7	-19.3
SPN (1M)	4.93	5.40	-47.0	Rubber (\$/kg)	1.31	1.37	-4.4
SUN (10Y)	6.41	6.65	-23.9	External Sector	Apr	Mar	Chg (%)
INDONIA (O/N, Rp)	5.46	5.98	-51.4	Export (\$ bn)	19.29	23.42	-17.62
JIBOR 1M (Rp)	6.40	6.40	0.4	Import (\$ bn)	15.35	20.59	-25.45
Bank Rates (Rp)	Mar	Feb	Chg (bps)	Trade bal. (\$ bn)	3.94	2.83	39.43
Lending (WC)	8.95	8.89	6.13	Central bank reserves (\$ bn)*	144.2	145.2	-0.68
Deposit 1M	4.20	4.18	2.24	Prompt Indicators	Apr	Mar	Dec
Savings	0.69	0.67	1.92	Consumer confidence index (CCI)	126.1	123.3	119.9
Currency/USD	24-May	-1 mth	Chg (%)	Car sales (%YoY)	-28.8	2.7	9.0
UK Pound	0.809	0.804	-0.54	Motorcycle sales (%YoY)	-19.4	40.5	24.6
Euro	0.930	0.910	-2.15	Manufacturing PMI	Apr	Mar	Chg (bps)
Japanese Yen	139.5	134.2	-3.81	USA	47.1	46.3	80
Chinese RMB	7.061	6.891	-2.40	Eurozone	45.8	47.3	-150
Indonesia Rupiah	14,905	14,845	-0.40	Japan	49.5	49.2	30
Capital Mkt	24-May	-1 mth	Chg (%)	China	49.5	50.0	-50
JCI	6,745.8	6,821.8	-1.11	Korea	48.1	47.6	50
DJIA	32,799.9	33,809.0	-2.98	Indonesia	52.7	51.9	80
FTSE	7,627.1	7,914.1	-3.63				
Nikkei 225	30,682.7	28,564.4	7.42				
Hang Seng	19,115.9	20,075.7	-4.78				
Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)				
Stock	2,789.1	2,726.8	62.33				
Govt. Bond	818.5	818.5	0.00				
Corp. Bond	11.8	12.0	-0.20				

Source: Bloomberg, BI, BPS

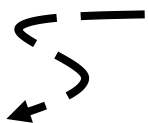
Notes:

^Data for January 2022

*Data from earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, >50 indicates economic expansion, <50 otherwise



Scan for the link to our report depository or click:

<https://s.id/1fMOq>

Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.0
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5011
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	3.4
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,173
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	35.3
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.74

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E.Sumual

Chief Economist

david_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

Victor George Petrus Matindas

Senior Economist

victor_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

Keely Julia Hasim

Economist / Analyst

keely_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

Arief Darmawan

Research Assistant

arief_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

Agus Salim Hardjodinto

Head of Industry and Regional Research

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman

Economist / Analyst

Elbert_lasiman@bca.co.id

+6221 2358 8000 Ext: 1074310

Firman Yosep Tember

Research Assistant

firman_tember@bca.co.id

+6221 2358 8000 Ext: 20378

Barra Kukuh Mamia

Senior Economist

barra_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

Thierris Nora Kusuma

Economist / Analyst

thierris_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

20th Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redist ted to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 20364 or fax to: (62-21) 2358 8343 or email: arief_darmawan@bca.co.id