# Overflowing confidence, tempering expectations

4 December 2023

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**Summary**

- In addition to the softened global rate outlook, Indonesia's stable inflation and growth prospects may contribute to keeping the Rupiah stable in the upcoming period.
- Increased fiscal spending during the election cycle could aid in replenishing the private sector's liquidity. However, the trickle-down effect, particularly on the lower segment of the population, may be constrained.
- Higher tax revenue and modest increases in transfers to regional governments in 2024 might further restrict the overall impact of the expansion in central government spending on GDP growth.

- Federal Reserve Chairman Jerome Powell hit the stage on Friday last week, stating it remains too early for the Fed to call a win on inflation and thus pushing back market expectations for a premature and aggressive rate cut next year. At the same time, however, Chairman Powell also confirmed FOMC's view that monetary policies in the US are well into restrictive territory, bringing a Dovish tone in what started as a hawkish statement and thus jolting the market as indicated by Friday's 26.83 bps increase in the S&P 500 index.
- The US stock market is not the only financial market that started in December 2023 on a high note. The Indonesian financial market attracted USD 0.51 Bn in foreign capital throughout the past week, as foreign investors in the domestic bond market recorded net purchases to the tune of USD 472.43 Mn while foreign capital stocks in the stock market increased by USD 38.47 Mn. The Rupiah was also observed to be largely stable last week, as the currency closed the first trading day of the final month of the year below the 15,500/USD psychological level.
- Chairman Powell's comment on Friday reinforces the story that has fuelled the Indonesian financial market (and other markets) since November 2023. Slowing inflation piles pressure on central bankers to incorporate a more dovish tone in their statements, while some Indonesia-specific conditions such as the improving FX liquidity conditions provide further support for the Rupiah.
- However, it is Indonesia's stable inflation and growth outlook that explains the robustness of the Rupiah's fundamentals. On the inflation side, the expected slowdown in the global growth momentum points to anaemic core inflation in the upcoming period. The weakening domestic loan growth provides another signal for a subdued core inflation pressure, given the

correlation between the two variables in the Indonesian economy. As noted in our previous report on the November 2023 CPI inflation number, inflation risks appear to be concentrated on food inflation, but the government's abundant supply of fiscal dry powder is expected to provide substantial help in keeping food prices in the domestic market stable.

- Besides its crucial role in keeping domestic food prices relatively affordable, the government's high fiscal commitment is also a major factor that underwrites Indonesia's growth outlook in 2024. This expansionary fiscal policy is already visible in H2 2023. For instance, the risk imposed by the El Nino weather pattern led the government to accelerate its social spending since June 2023. The realisation of capital expenditures also appears to be increasingly aggressive throughout 2023, considering that the time is running out for the incumbent administration to complete its many ambitious infrastructure projects.

***"Softening global rate expectations and the improving domestic FX liquidity condition may provide additional supports for the Rupiah"***

**Beware of the post-election hangover**

- Among the government's long list of fiscal expenditures, none appears to be expected to considerably boost the economy other than election-related spending. Anticipations of the election often lead to an upward trend in the contribution of collective government spending to the GDP growth number from the previous few quarters, while the same pattern is also observed in spending by non-profit institutions as the political campaign heats up ***(see Chart 1)***. This surge in spending, the argument follows, would trickle down to the wider population (especially the lower-income segment), thus improving their purchasing power and boosting the aggregate demand level throughout the economy.
- Our observations of domestic liquidity conditions also reveal some linkage between the private sector's liquidity situation and the government's fiscal cycle ***(see Chart 2)***, reinforcing the economic argument of the ongoing election. However, it might be prudent not to cling all the hope to the election spending to fuel the domestic economy into a blast-off.
- **Our first concern is regarding the staying power of the election-related spending following the election.** As noted in Chart 1, the effect of election-related spending on the GDP growth number often dissipates soon after the culmination of the campaigning season, restricting the election boost to only two or three quarters. Ergo, the growth-positive impact from the ongoing election cycle may last until H1 2023, leaving the domestic aggregate demand outlook in the second half of the next year with no visible public sector-driven stimuli so far.
- The shortened campaigning period on the 2023-2024 election calendar may add another blow to the staying power of election-related spending. A prolonged campaigning period, of course, has its own risk. It could add to the political uncertainty surrounding the Indonesian economy, which may translate negatively to investors' perception of Indonesia among other risks. However, the

now-shorter campaigning period (also, the still-open possibility of a one-round election) might also prove to be bad news for the economy. The trickle-down effect from election-related spending, of course, is particularly relevant for the lower-middle income segment. **Thus, the shortened campaigning period may limit the liquidity refill in the lower-middle income population.**

- This trickling-down of liquidity may also eventually trickle up again to the upper-middle-income segment, given that the still-elevated food prices would leave no option for the lower-income segment population but to spend. Alas, it is unclear whether households in the upper-middle-income segment would go out and spend in the upcoming period. The continued downfall in the household sector's net bank balance may induce the upper-middle-income segment to rebuild their savings balance ***(see Chart 3)***, a scenario that could lead to a drop in the share of consumption in households' total expenditures, especially given the expectation of limited income growth in the next year.

***"The shorter campaigning period may limit the election impact on the lower-middle income population, given that election-related spending is more relevant to households in the lower segment"***

- The upper-middle-income households, of course, often act as a source of employment for households in the lower segment, both directly and indirectly through their role in dictating the ebb and flow in the aggregate demand level. Hence, the possible decline (or at least, lack of improvement) in the consumption of upper-middle-income households may deny lower-income households a more stable source of liquidity, further damaging their consumption outlook in the post-election period of H2 2024 and beyond.
- We extend the list of our concerns regarding the overall impact on the election spending to the FY2024 growth prospect by zooming back out from household finances to the more macro topic of government finances. In this aspect, whether the government is launching more expansive fiscal policies is debatable. While the government looks set to increase fiscal overall spending by 5.8% YoY in 2024, revenue is also targeted to increase by 5.5% YoY. This increase in revenue, of course, would be driven solely by the targeted 8.9% increase in tax revenue, given the projected weak commodity prices that would hit Indonesia's non-tax revenue. **The government's anticipated spending spree, then, may dent the household sector's purchasing power, as the increasing spending would be financed by higher taxes**.
- The household sector is not the only party that may need to sacrifice a portion of their consumption to provide financing for the quinquennial spike in central government spending. **The central government's higher fiscal commitments in FY 2024 also appear to be facilitated by re-routing some funds for local governments**, as indicated by the 3.9% increase in transfer to regional governments, lower than the 8.9% increase in central government spending. Limited increases in funds allocated to regional governments may hinder spending initiatives at the regional level, a condition that may widen gaps between regions as governments direct their

focus and resources to a few infrastructure projects.

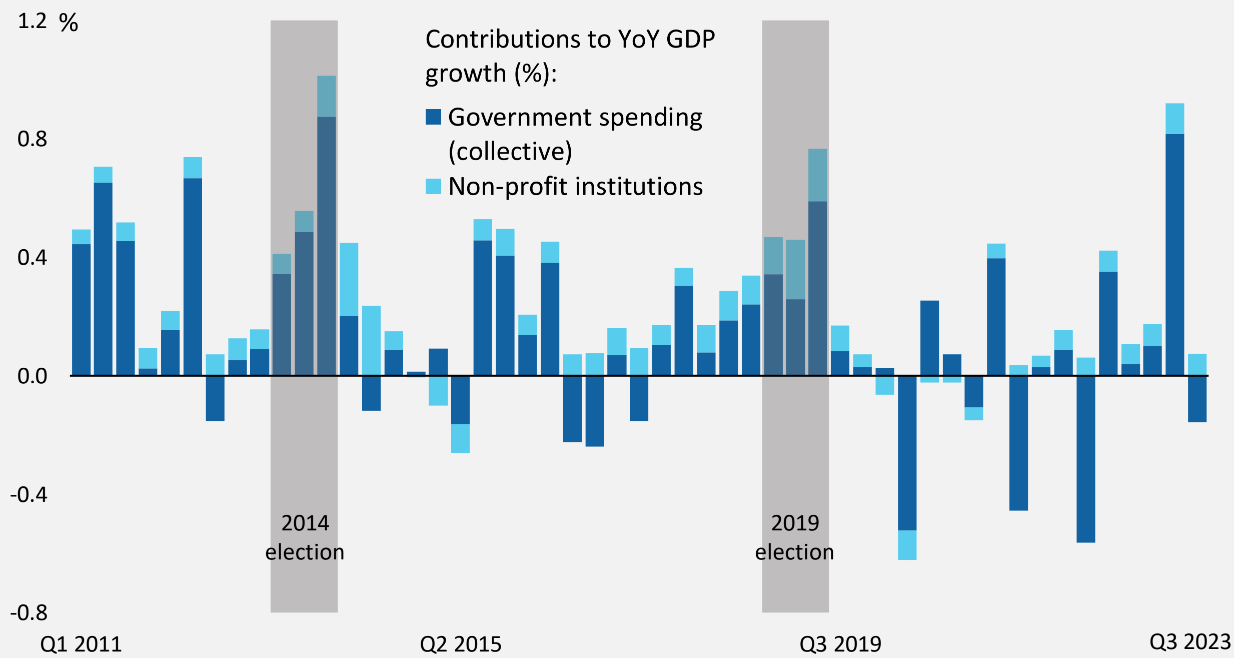
- Scenarios described above, of course, would run parallel with the expected slowdown in the global economic growth momentum. Indeed, the weakening external demand (combined with the relatively stable demand from Indonesian customers) may continue to suppress net exports' contribution to the GDP growth number in the upcoming period, while the growth in private investments may also prove to be limited given the higher-for-longer real interest rate scenario and the continued global commodity disinflation (and thus, corporate revenue) going forward. The domestic aggregate demand growth momentum, driven by election-related spending, may help maintain Indonesia's status as a haven of growth. However, **the limited staying power of election spending and its restricted trickle-down effect on the lower segment of the population points to an early suggestion that a slight decline in the GDP growth number to around 5.0% YoY is more likely in the next year.**

***"The spike in central government spending may limit the increase in private sector and regional government spending, dampening the election impact on aggregate demand growth"***

**Chart 1**

**Limited boosts?**

The election period often coincides with a spike in spending by the government and non-profit institutions, but the shortened election calendar may limit the direct economic impact of the ongoing election cycle




**Source:** BPS. Calculations by BCA Macroeconomic Research

**Chart 2**

**From the government for the people**

Fiscal expansions often lead to a substantial improvement in the household liquidity condition, although the relationship appears to be less clear during the previous election cycle.

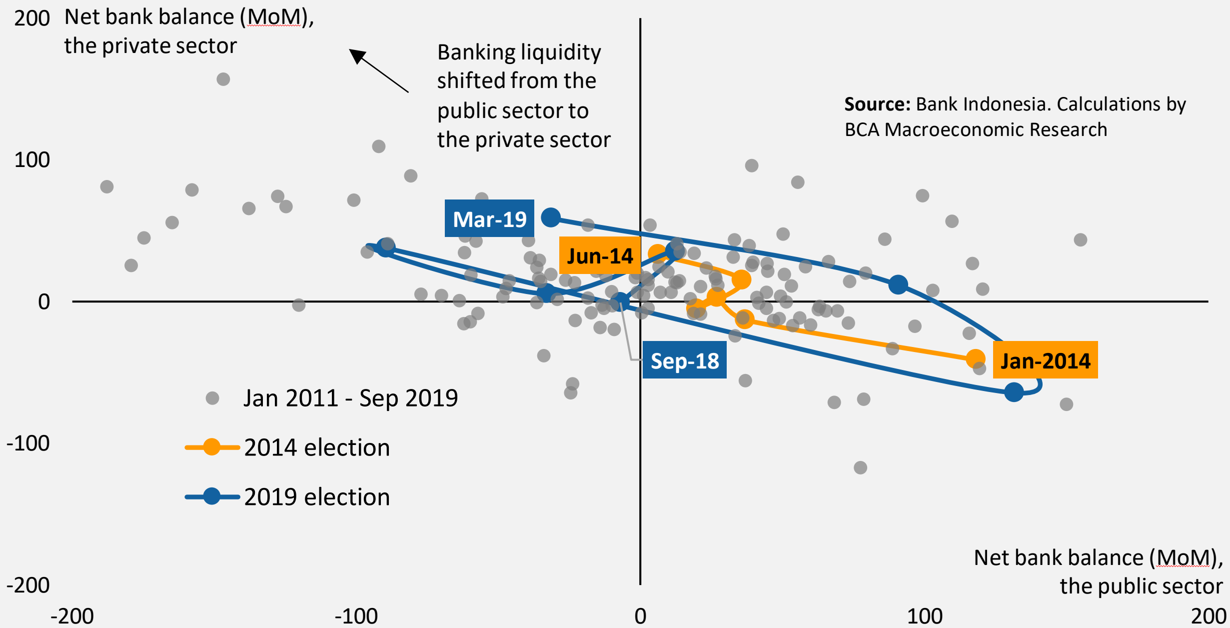
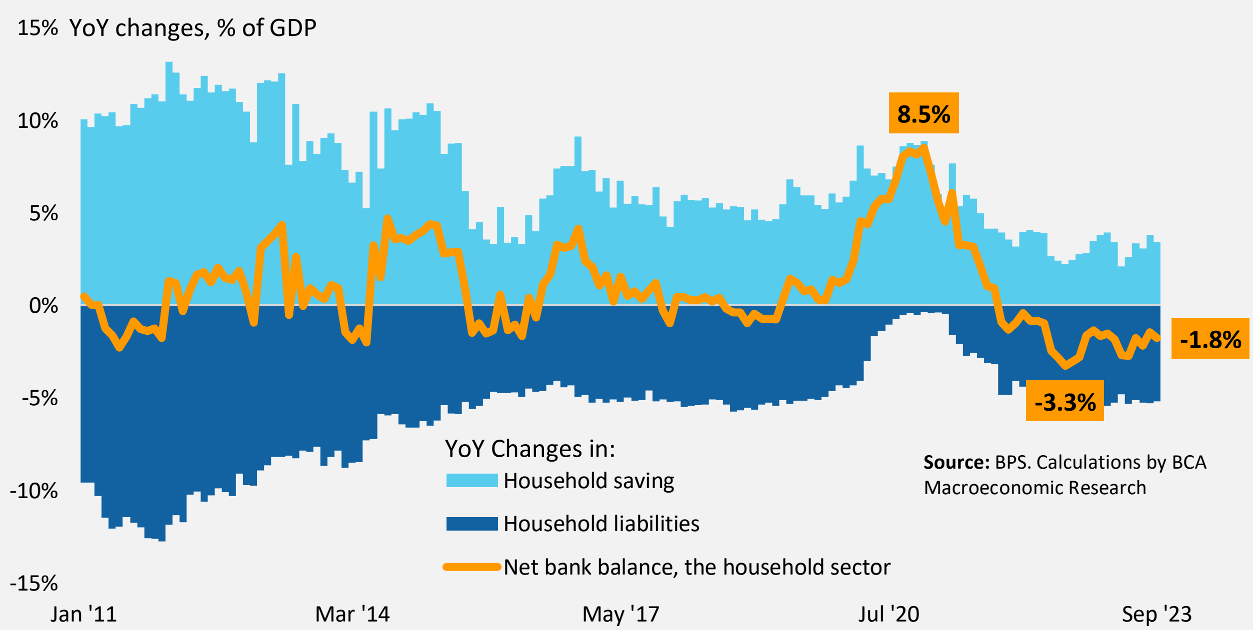



**Chart 3**

**Refilling the piggy bank**

Despite the trickle-down of liquidity from the public sector, the household sector may choose to hold back some consumption as the high real rate environment adds to the incentive to rebuild their already depleted saving balance



## Economic Calendar

| | | Actual | Previous | Forecast* |
|---|---|---|---|---|
| 1 Desember 2023 | | | | |
| ID | S&P Global Manufacturing PMI | 51.7 | 51.5 | 51.3 |
| CN | Caixin Manufacturing PMI | 50.7 | 49.5 | 50.2 |
| **ID** | **Inflation rate YoY** | **2.86%** | **2.56%** | **2.7%** |
| US | ISM Manufacturing PMI | 46.7 | 46.7 | 47.2 |
| 5 Desember 2023 | | | | |
| US | JOLTs Job Openings (USD Mn) | | 9.55 | 9.4 |
| 6 Desember 2023 | | | | |
| US | Balance of Trade (USD Bn) | | -61.5 | - |
| 7 Desember 2023 | | | | |
| CN | Balance of Trade (USD Bn) | | 56.53 | 51.0 |
| **ID** | **Foreign Exchange Reserves (USD Bn)** | | **133.1** | **132.0** |
| 8 Desember 2023 | | | | |
| US | Unemployment Rate | | 3.9% | 3.9% |
| US | Non-Farm Payroll ('000) | | 150 | 100 |
| 9 Desember 2023 | | | | |
| CN | Inflation Rate YoY | | -0.2% | -0.3% |
| 12 Desember 2023 | | | | |
| US | Inflation Rate YoY | | 3.2% | 3.1% |
| 14 Desember 2023 | | | | |
| **US** | **Fed Interest Rate Decision** | | **5.5%** | **5.75%** |
| 20 Desember 2023 | | | | |
| ID | Motorbike Sales YoY | | -4% | - |
| ID | Car Sales YoY | | -13.9 | - |
| 21 Desember 2023 | | | | |
| ID | Loan Growth YoY | | 8.9% | - |
| **ID** | **Interest Rate Decision** | | **6%** | **-** |

*Forecasts of some indicators are simply based on market consensus
Bold indicates indicators covered by the BCA Monthly Economic Briefing report

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## Selected Macroeconomic Indicator

| Key Policy Rates | Rate (%) | Last Change | Real Rate (%) |
|---|---|---|---|
| US | 5.50 | Dec-23 | 2.30 |
| UK | 5.25 | Dec-23 | 0.65 |
| EU | 4.50 | Dec-23 | 2.10 |
| Japan | -0.10 | Jan-16 | -3.40 |
| China (lending) | 2.50 | Nov-23 | 4.55 |
| Korea | 3.50 | Nov-23 | -0.30 |
| India | 6.50 | Oct-23 | 1.63 |
| Indonesia | 6.00 | Nov-23 | 3.14 |

| Money Mkt Rates | 1-Dec | -1 mth | Chg (bps) |
|---|---|---|---|
| SPN (1M) | 6.26 | 6.38 | -12.3 |
| SUN (10Y) | 6.60 | 7.09 | -49.2 |
| INDONIA (O/N, Rp) | 5.81 | 5.85 | -3.3 |
| JIBOR 1M (Rp) | 6.65 | 6.65 | -0.7 |

| Bank Rates (Rp) | Sep | Aug | Chg (bps) |
|---|---|---|---|
| Lending (WC) | 9.02 | 8.96 | 5.79 |
| Deposit 1M | 4.33 | 4.29 | 4.24 |
| Savings | 0.66 | 0.66 | 0.38 |

| Currency/USD | 1-Dec | -1 mth | Chg (%) |
|---|---|---|---|
| UK Pound | 0.787 | 0.823 | 4.58 |
| Euro | 0.919 | 0.946 | 2.92 |
| Japanese Yen | 146.8 | 151.7 | 3.31 |
| Chinese RMB | 7.129 | 7.316 | 2.64 |
| Indonesia Rupiah | 15,485 | 15,885 | 2.58 |

| Capital Mkt | 1-Dec | -1 mth | Chg (%) |
|---|---|---|---|
| JCI | 7,059.9 | 6,752.2 | 4.56 |
| DJIA | 36,245.5 | 33,052.9 | 9.66 |
| FTSE | 7,529.4 | 7,321.7 | 2.84 |
| Nikkei 225 | 33,431.5 | 30,858.9 | 8.34 |
| Hang Seng | 16,830.3 | 17,112.5 | -1.65 |

| Foreign portfolio ownership (Rp Tn) | Nov | Oct | Chg (Rp Tn) |
|---|---|---|---|
| Stock | 3,136.1 | 2,895.1 | 240.91 |
| Govt. Bond | 833.9 | 810.4 | 23.50 |
| Corp. Bond | 11.2 | 11.3 | -0.14 |

| Trade & Commodities | 1-Dec | -1 mth | Chg (%) |
|---|---|---|---|
| Baltic Dry Index | 3,192.0 | 1,459.0 | 118.8 |
| S&P GSCI Index | 548.7 | 577.0 | -4.9 |
| Oil (Brent, $/brl) | 78.9 | 87.4 | -9.8 |
| Coal ($/MT) | 133.5 | 127.4 | 4.8 |
| Gas ($/MMBtu) | 2.63 | 3.34 | -21.3 |
| Gold ($/oz.) | 2,072.2 | 1,983.9 | 4.5 |
| Copper ($/MT) | 8,538.5 | 8,029.0 | 6.3 |
| Nickel ($/MT) | 16,846.0 | 17,903.0 | -5.9 |
| CPO ($/MT) | 799.3 | 747.1 | 7.0 |
| Rubber ($/kg) | 1.43 | 1.43 | 0.0 |

| External Sector | Oct | Sep | Chg (%) |
|---|---|---|---|
| Export ($ bn) | 22.15 | 20.75 | 6.76 |
| Import ($ bn) | 18.67 | 17.34 | 7.68 |
| Trade bal. ($ bn) | 3.48 | 3.41 | 2.08 |
| Central bank reserves ($ bn)* | 133.1 | 134.9 | -1.30 |

| Prompt Indicators | Oct | Sep | Aug |
|---|---|---|---|
| Consumer confidence index (CCI) | 124.3 | 121.7 | 125.2 |
| Car sales (%YoY) | -13.9 | -20.1 | -8.3 |
| Motorcycle sales (%YoY) | -4.0 | -0.9 | 1.8 |

| Manufacturing PMI | Nov | Oct | Chg (bps) |
|---|---|---|---|
| USA | 46.7 | 46.7 | 0 |
| Eurozone | 44.2 | 43.1 | 110 |
| Japan | 48.3 | 48.7 | -40 |
| China | 50.7 | 49.5 | 120 |
| Korea | 50.0 | 49.8 | 20 |
| Indonesia | 51.7 | 51.5 | 20 |

Source: Bloomberg, BI, BPS

Notes:

Car and motorcycle sales data to be released on the third week of January 2022

^Data for January 2022

*Data from an earlier period

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

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

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## Indonesia – Economic Indicators Projection

| | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E |
|---|---|---|---|---|---|---|
| Gross Domestic Product (% YoY) | 5.0 | -2.1 | 3.7 | 5.3 | 5.1 | 5.0 |
| GDP per Capita (US$) | 4175 | 3912 | 4350 | 4784 | 4982 | 5149 |
| Consumer Price Index Inflation (% YoY) | 2.7 | 1.7 | 1.9 | 5.5 | 2.8 | 3.2 |
| BI 7-day Repo Rate (%) | 5.00 | 3.75 | 3.50 | 5.50 | 6.00 | 5.50 |
| USD/IDR Exchange Rate (end of the year)** | 13,866 | 14,050 | 14,262 | 15,568 | 15,728 | 16.037 |
| Trade Balance (US$ billion) | -3.2 | 21.7 | 35.3 | 54.5 | 34.9 | 32.6 |
| Current Account Balance (% GDP) | -2.7 | -0.4 | 0.3 | 1.0 | -0.4 | -0.5 |

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate


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