BI Policy:

Calm waters, but beware the monster underneath

Thierris Nora Kusuma
Economist/Analyst

Barra Kukuh Mamia
Senior Economist

21 February 2024

Executive Summary

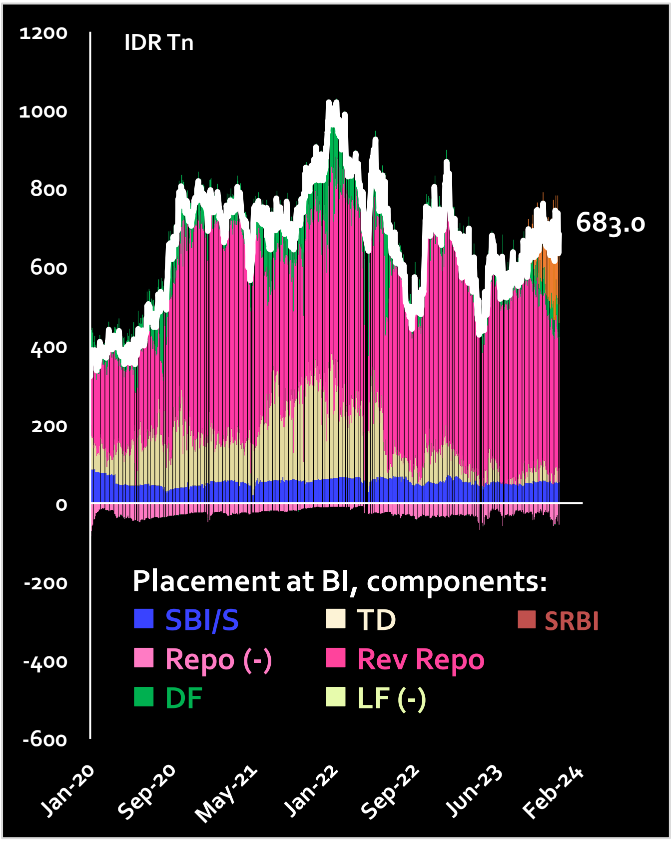
- Bank Indonesia (BI) maintains its benchmark rate at 6.00% to uphold stability amidst a relatively stable macro environment, marked by a rebound in IDR/USD and increased capital inflows post-election.
- Concerns arise over the growing disparity between loan and deposit growth, signaling a deepening liquidity shortage that may hinder sustained economic growth.
- Government spending injections in late 2023 have aided liquidity, but recent cash-focused spending may drain liquidity from the banking system, but could boost consumption and GDP growth.
- Balancing growth objectives with maintaining financial stability poses a significant challenge for policymakers in 2024, as Indonesia aims for 5% growth amidst growing symptoms of liquidity shortage, potentially leading to short-term inflation and medium-term CA deficits.

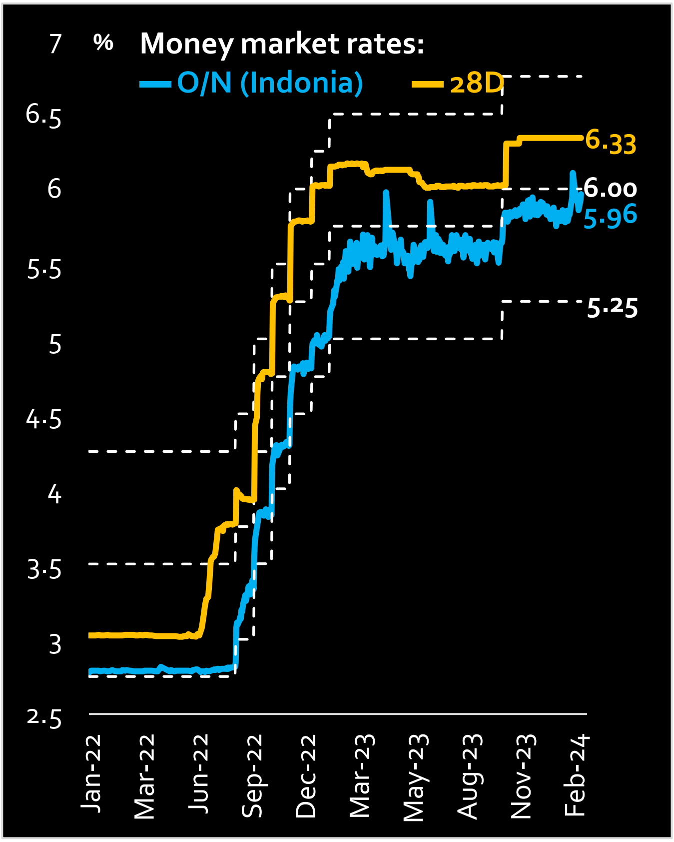
- Bank Indonesia (BI) has opted to keep its benchmark rate (BI-Rate) at 6.00%, in line with market expectations and BI's broad strategy of applying pro-stability monetary policies and more accommodative macroprudential policies. It is also in line with the relatively stable macro environment, with a slight rebound in IDR/USD and a strong return of capital inflows to the stock market after the one-round Presidential Election.
- However, concerns loom over the widening disparity between loan growth (11.83% YoY in Jan-24) and deposit growth (5.8% YoY). This growing gap signals a deepening liquidity shortage, posing potential challenges to sustained economic growth.
- The private sector's liquidity has been under pressure due to the decline in commodity prices and a slowdown in global demand. Coupled with heightened post-pandemic consumption, this has led to a situation where exports are falling while imports are already back on an uptrend, resulting in a narrower trade surplus.
- The surge in government spending in late 2023 played a pivotal role in bolstering liquidity. A portion of this expenditure was directly financed from the government's coffers (SAL), which can be considered as "outside money" from outside of the banking system. This injection of fresh liquidity proved instrumental in replenishing the liquidity of SOEs and the private sector. However, this liquidity infusion did not really translate to spending, with consumption growth in Q4 slowing down to only 4.47% YoY.
- On the other hand, the latest round of spending in Jan-Feb 2024 (consisting of government social assistance and elections-related spending) may have had an opposite effect. The bulk

of these spending seems to come in the form of cash, effectively draining liquidity from the banking system. However, as these were mostly targeted to lower-income households who have higher propensity to consume, this could prove more effective in boosting consumption and overall GDP growth.

- The liquidity gap is further compounded by weaker foreign inflows into the government bonds (SBN), in contrast to the bullishness of the stock market. This can be attributed, in part, to a shift in expectations regarding a Federal Reserve rate cut, which is now deemed unlikely to materialize until the latter half of 2024, compounded by persistently high US inflation rates. Consequently, US Treasury yields are on an upward trajectory, dampening the appeal of SBN to foreign investors.
- BI has made some moves to address this liquidity tightness, for instance by reducing SRBI issuance in recent weeks. As we have mentioned before, SRBI was issued late last year as a tool to sop up excess liquidity from banks, and it proves so attractive given the higher yields on offer compared to short-term government debt. Indeed, banks have been selling off part of their SBN holdings in favor of SRBI, forcing BI to increase its share of SBN ownership.
- All these highlight the trickier tradeoff between growth and liquidity that the financial system will likely face in 2024. If Indonesia is to grow by around 5% (as expected) against the backdrop of global trends, it could come at the expense of growing symptoms of liquidity shortage.
- In the short-term potentially up to the Lebaran period, this might manifest in the form of heightened inflation, given the large amounts of cash in circulation (too much money) and rice shortage (too few goods). In the medium-term, however, this might translate to wider current account deficits, which could – when paired with global volatility – lead to pressure on the Rupiah. Balancing growth objectives with maintaining financial stability will remain a key challenge for policymakers in the foreseeable future.
- Hence we may expect BI to synchronize its rate adjustments with the projected timeline outlined by the Fed. It is anticipated that BI might initiate rate cuts as early as the latter half of 2024, in line with the anticipated trajectory of The Fed's policy adjustments. While market sentiment converges on the expectation of the Fed implementing rate cuts approximately three times throughout 2024, BI is expected to follow suit, albeit with adjustments to the magnitude of these cuts tailored to the prevailing economic conditions.

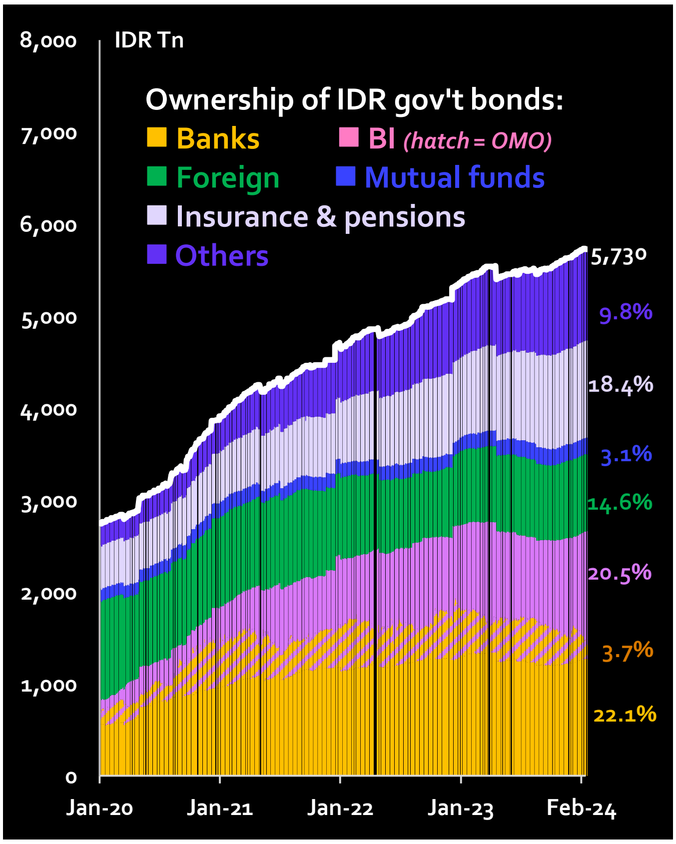
Panel 1. Domestic banks' placement is increasingly skewed towards SRBI than other, more traditional instruments

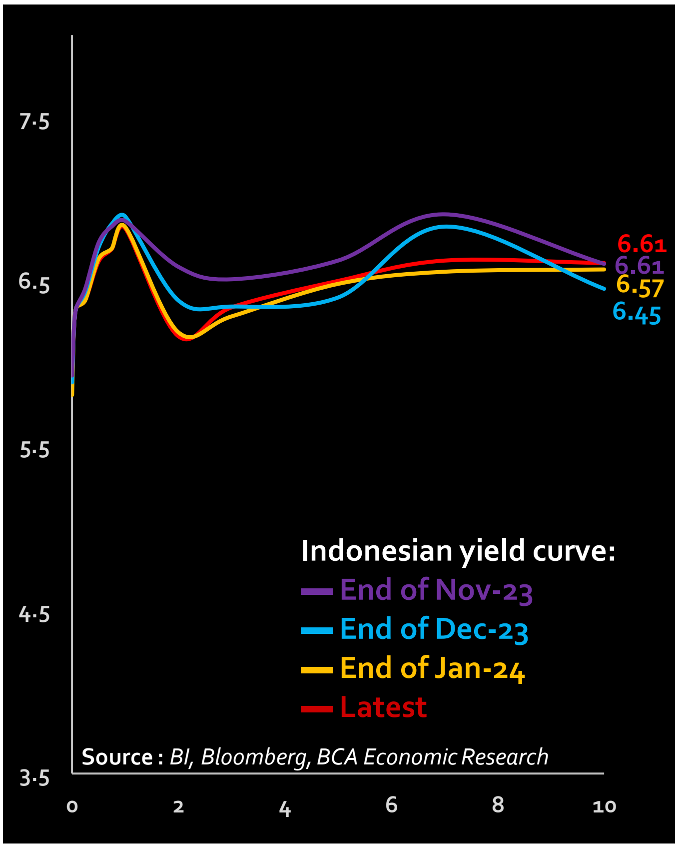




Source: BI, Bloomberg, BCA Economist

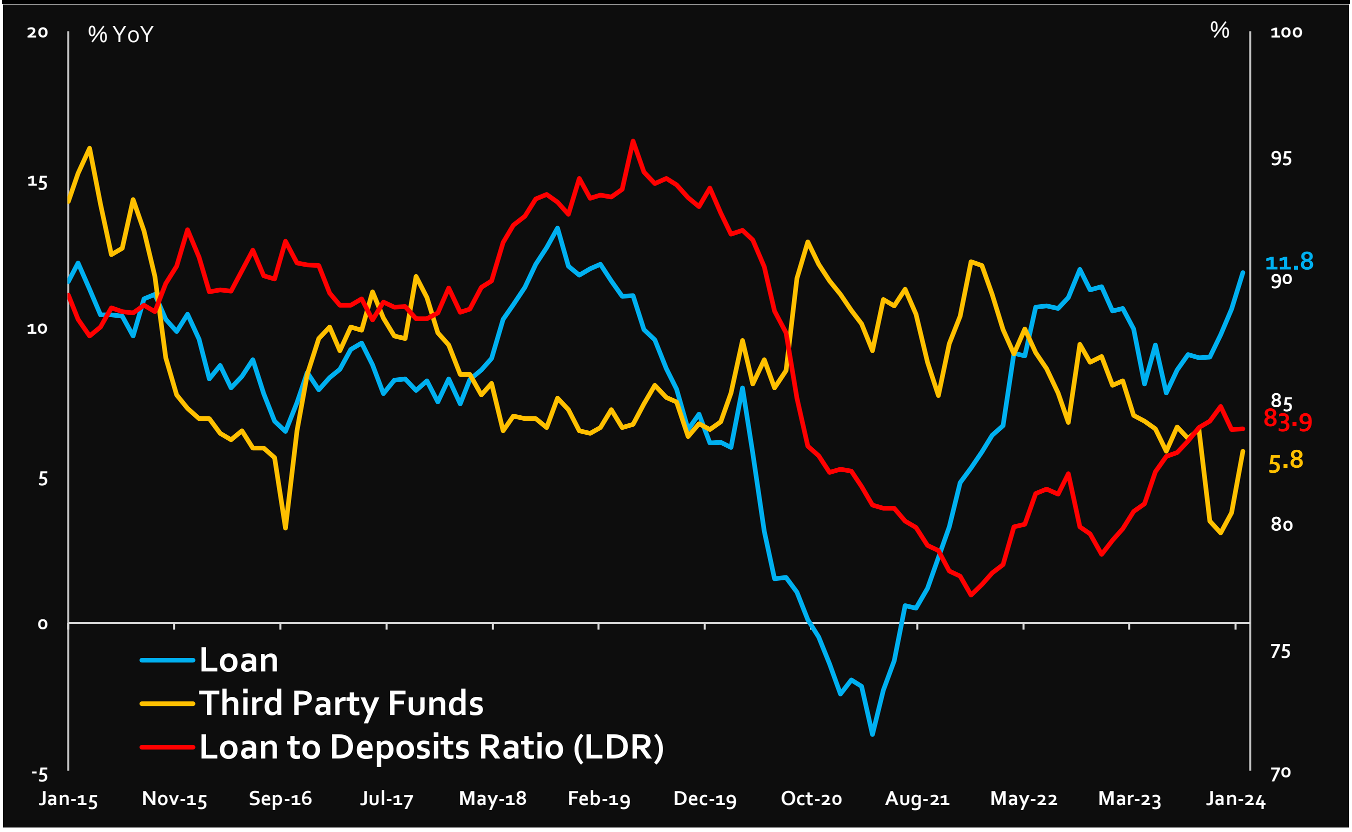
Panel 2. The yield on the SBN market rose slightly as much of the foreign capital inflows observed in January 2024 went to the stock market





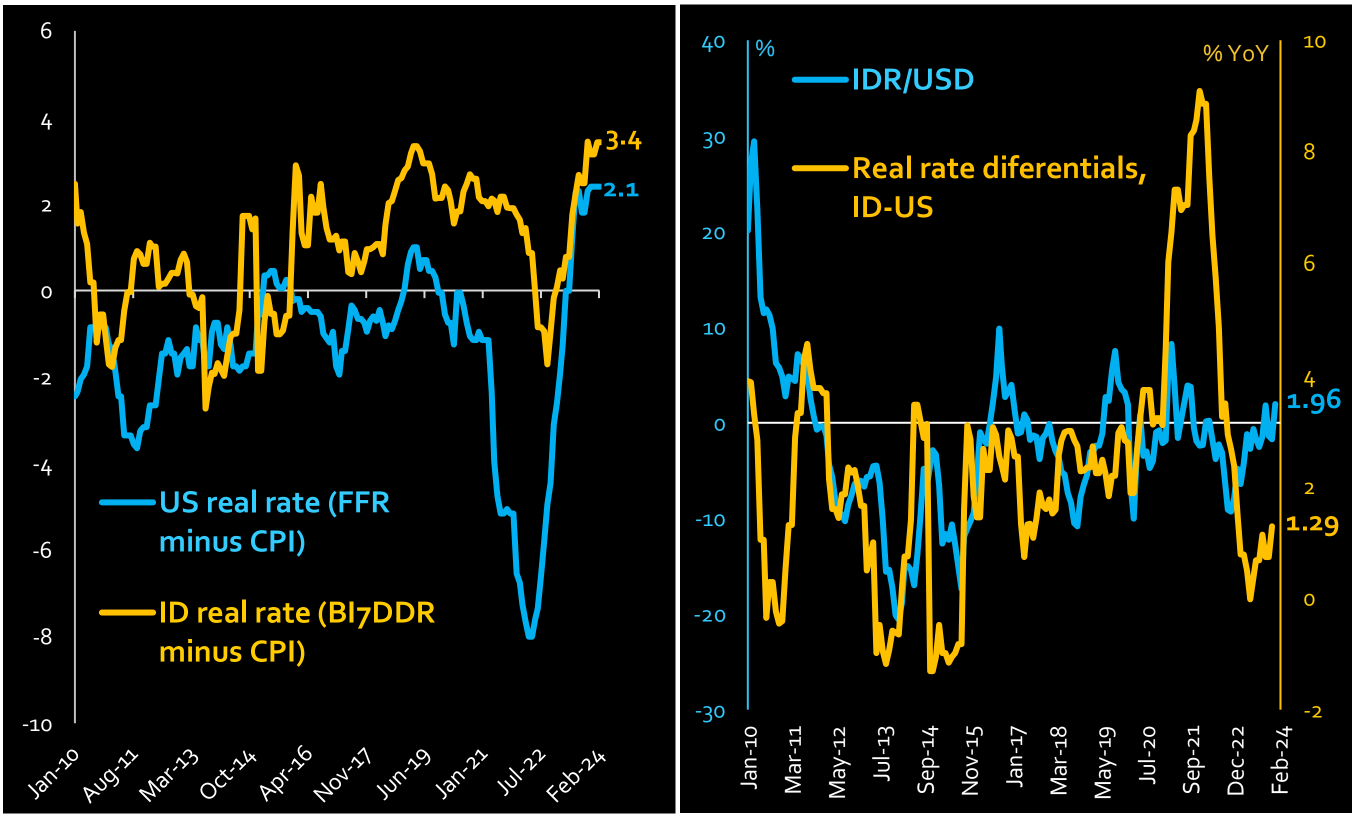
Source: MoF, BI, Bloomberg, BCA Economist

Panel 3. **Loan growth continues to accelerate despite the more restricted deposit growth**



Source: OJK, BI, BCA Economist

Panel 4. **The now-subdued inflationary pressures widen Indonesia's real rate differentials, but BI would need to stay vigilant given the still apparent risk of food inflation**



Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	5.50	Dec-23	2.40
UK	5.25	Dec-23	1.25
EU	4.50	Dec-23	1.70
Japan	-0.10	Jan-16	-2.70
China (lending)	2.50	Dec-23	5.15
Korea	3.50	Nov-23	0.70
India	6.50	Dec-23	1.40
Indonesia	6.00	Nov-23	3.43

Money Mkt Rates	20-Feb	-1 mth	Chg (bps)
SPN (1M)	5.88	5.80	7.6
SUN (10Y)	6.61	6.61	-0.3
INDONIA (O/N, Rp)	5.97	5.78	18.2
JIBOR 1M (Rp)	6.64	6.64	-0.5

Bank Rates (Rp)	Dec	Nov	Chg (bps)
Lending (WC)	8.86	8.91	-4.93
Deposit 1M	4.76	4.52	24.61
Savings	0.69	0.67	1.94

Currency/USD	20-Feb	-1 mth	Chg (%)
UK Pound	0.792	0.787	-0.63
Euro	0.925	0.918	-0.83
Japanese Yen	150.0	148.1	-1.26
Chinese RMB	7.193	7.193	0.01
Indonesia Rupiah	15,660	15,615	-0.29

Capital Mkt	20-Feb	-1 mth	Chg (%)
JCI	7,352.6	7,227.4	1.73
DJIA	38,563.8	37,863.8	1.85
FTSE	7,719.2	7,461.9	3.45
Nikkei 225	38,363.6	35,963.3	6.67
Hang Seng	16,247.5	15,308.7	6.13

Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)
Stock	3,115.8	3,226.3	-110.54
Govt. Bond	841.9	842.1	-0.17
Corp. Bond	10.4	10.6	-0.19

Trade & Commodities	20-Feb	-1 mth	Chg (%)
Baltic Dry Index	1,632.0	1,503.0	8.6
S&P GSCI Index	553.9	538.8	2.8
Oil (Brent, $/brl)	82.3	78.6	4.8
Coal ($/MT)	122.1	118.3	3.2
Gas ($/MMBtu)	1.50	2.69	-44.2
Gold ($/oz.)	2,024.4	2,029.5	-0.3
Copper ($/MT)	8,424.0	8,271.8	1.8
Nickel ($/MT)	16,112.5	15,799.0	2.0
CPO ($/MT)	832.9	837.3	-0.5
Rubber ($/kg)	1.53	1.53	0.0

External Sector	Jan	Dec	Chg (%)
Export ($ bn)	20.52	22.41	-8.43
Import ($ bn)	18.51	19.11	-3.13
Trade bal. ($ bn)	2.02	3.31	-39.07
Central bank reserves ($ bn)*	145.1	146.4	-0.88

Prompt Indicators	Jan	Dec	Nov
Consumer confidence index (CCI)	125.0	123.8	123.6
Car sales (%YoY)	-26.1	-19.1	-7.5
Motorcycle sales (%YoY)	-3.7	-11.6	-2.8

Manufacturing PMI	Jan	Dec	Chg (bps)
USA	50.7	47.9	280
Eurozone	46.6	44.4	220
Japan	48.0	47.9	10
China	50.8	50.8	0
Korea	51.2	49.9	130
Indonesia	52.9	52.2	70

Source: Bloomberg, BI, BPS
Notes:
*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/BCA_REI

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$)	4175	3912	4350	4784	4982	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6*	3.2
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00*	5.50
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397*	16.037
Trade Balance (US$ billion)	-3.2	21.7	35.3	54.5	37.0*	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	0.1	-0.5

*Actual 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

Agus Salim Hardjodinoto
Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia
Senior Economist
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas
Senior Economist
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Keely Julia Hasim
Economist / Analyst
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1007431

Thierris Nora Kusuma
Economist / Analyst
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

Aldi Rizaldi
Research Assistant
aldi_yanto@bca.co.id
+6221 2358 8000 Ext: 1020451

Fikri Adam Zaqi
Research Assistant
-
+6221 2358 8000 Ext:-

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