

BI Policy:

Cautious stance ahead of a tough year

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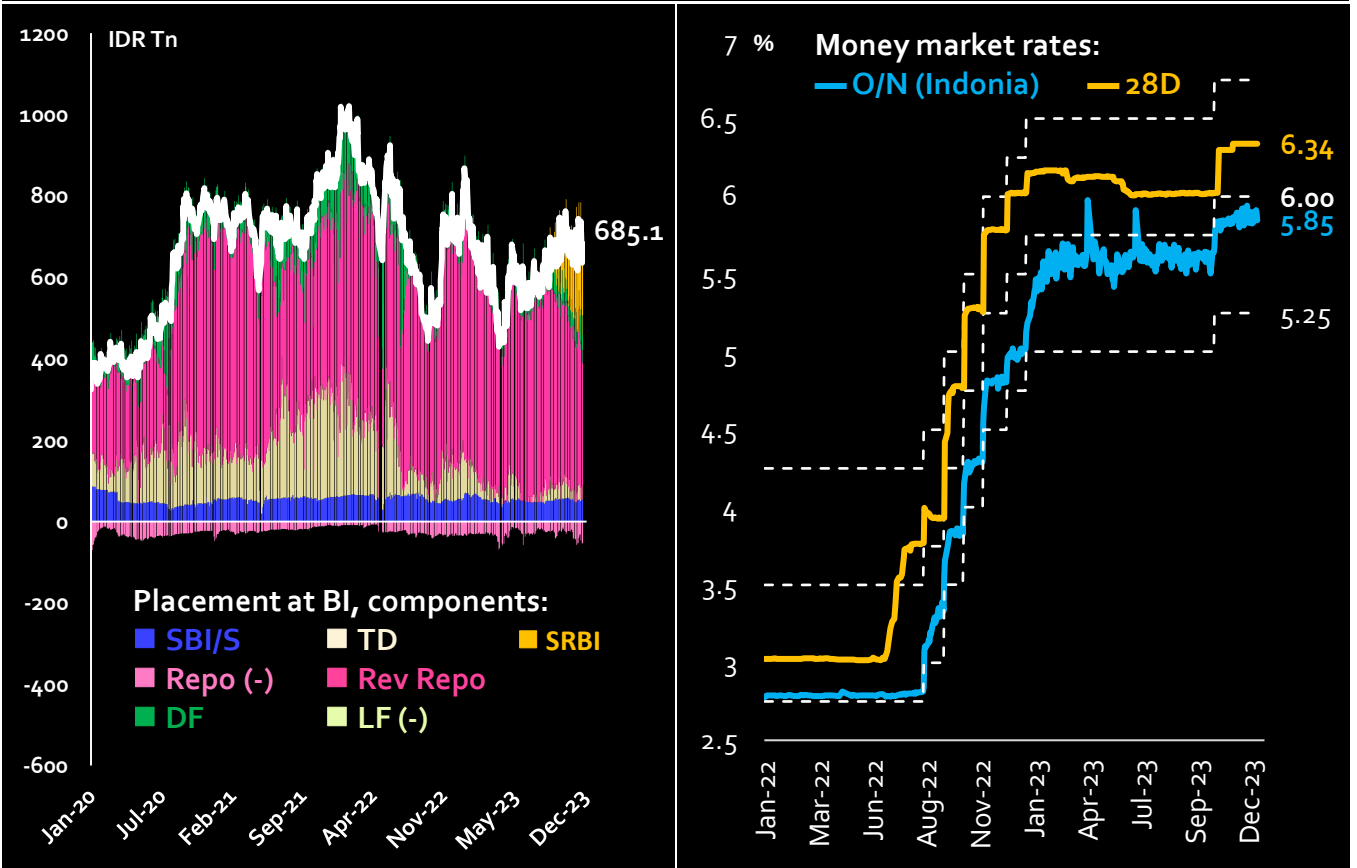
Executive Summary

- BI kept the 7dRR at 6.00% as expected, affirming its conservative monetary stance which is combined with accommodative macroprudential policies and money market deepening.
 - The “frontloaded” uncertainties in 2024, with regard to Fed policy, food inflation, and Elections, imply that BI will likely defer its rate cuts until the second half of the year.
 - The gap between loan and deposit growth continues to grow, which might imply slow disbursement of government spending but robust private aggregate demand regardless.
- Bank Indonesia kept minimum fuss in its final meeting for the year, holding the 7-day Repo Rate at 6.00%. It also reaffirms what we may by now characterize as its “interlocking trident” in the current macro environment: **(i) a cautious, Rupiah-focused monetary stance; (ii) an accommodative macroprudential stance that supports lending despite the policy rate; and (iii) a push to deepen the money market to better provision banks with liquidity amid slower deposit growth.**
 - In a way, BI’s relative orthodoxy is a refreshing contrast to the Fed’s latest forward guidance, which has invited speculation of rapid easing beyond what the FOMC members themselves envision. BI refuses to entertain the possibility of an early rate cut in H1-24, citing concerns over global portfolio flows and food inflation ...
 - ... to which we could also add the uncertainties with regard to the Elections, the refinancing of government bonds, the exit/repatriation of dividend in May, and the uncertain outcome of China’s stimulus towards commodity demand. Given these “frontloaded” challenges, we agree that BI is likely to wait until H2-24 to deliver their rate cuts.
 - Interestingly, while BI asserts that it does not have to mimic the Fed’s interest rate path, it considers “a decline in imported inflation”, potentially due to Rupiah appreciation, as an important cue to start a new easing cycle. This shows that BI regards the Rupiah as being fundamentally stronger than it currently is, which may indeed be the case ...
 - ... but, as we wrote [in a recent report](#), might also put Indonesia at a long-term disadvantage compared to its Asian peers. Indeed, the Rupiah has actually been the best-performing Asian currencies in 2023 (bar SGD), while imported prices have actually declined thanks in part to an influx of Chinese goods.
 - BI’s stance, as such, may further entrench Indonesia’s “commodity + consumption” economic model at a time when commodity prices are slumping and there is substantial opportunity –

thanks to the US-China decoupling – for Indonesian manufacturers to gain more foothold in the global market.

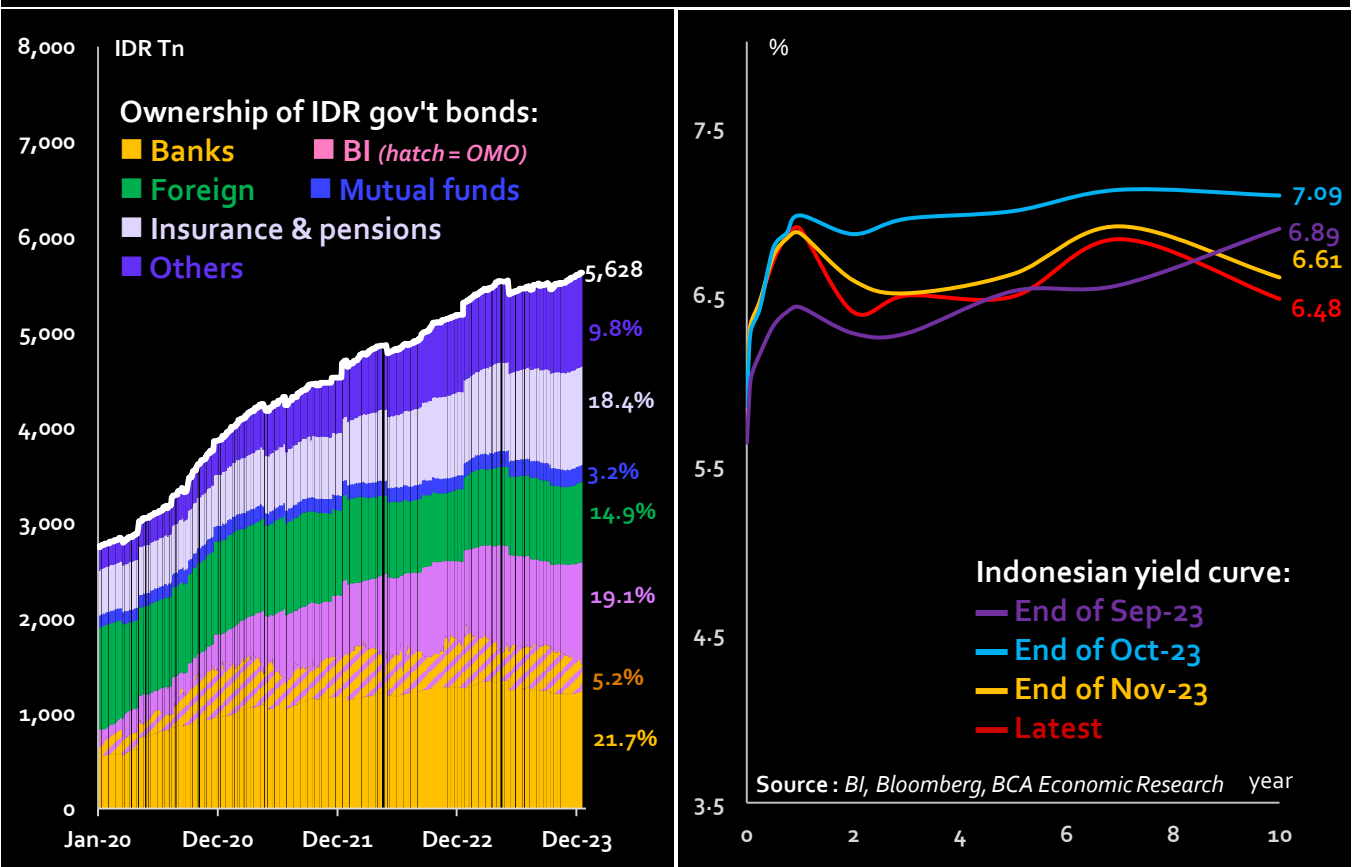
- Still, despite the potential (long-term) opportunity loss, this cautious stance does provide a bedrock of stability ahead of the uncertainties in 2024. It may even be a necessary antidote given the gaping savings-investment (S-I) gap, which is evident from the growing divergence between loan growth (9.74% YoY per Nov-23) and deposit growth (3.04%).
- These latest numbers are interesting, since it indicates relative disappointment with regard to government spending and the vaunted “Election effect” that are supposed to refill private liquidity, but it does show the resilience of private aggregate demand regardless.
- This does not alter our growth outlook for now (5.1% in 2023, 5.0% in 2024), but it would be interesting to see how strongly private liquidity could rebound once the Election effect and the base effect from the early-2023 coal slump has been accounted for.
- We suspect that – given the authorities’ pro-lending and strong-Rupiah stance – a significant S-I gap would remain in 2024, which implies a modest CA deficit but also relatively robust growth for Indonesia despite the global circumstances.

Panel 1. Liquidity within the system remains ample, but shifting towards SRBI



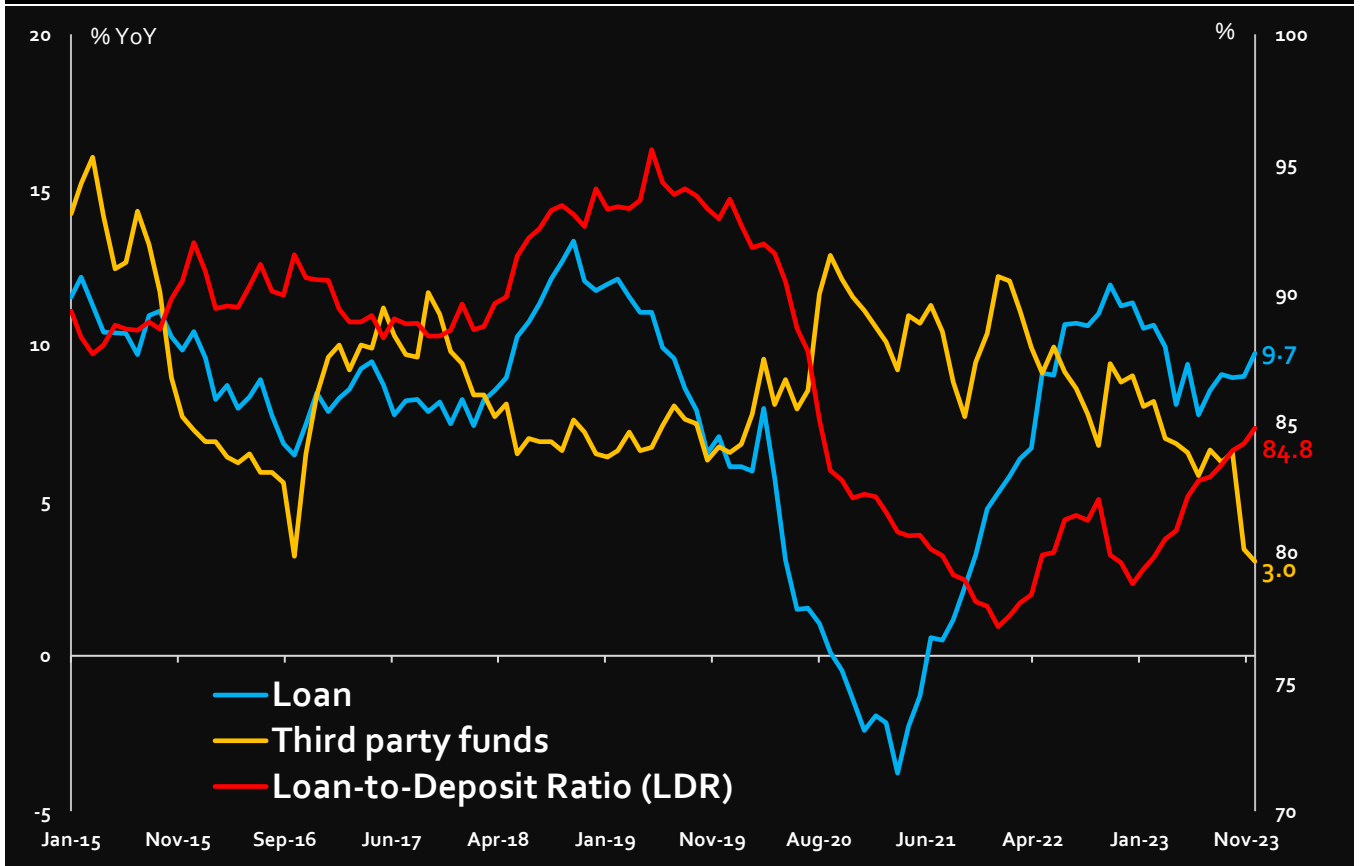
Source: BI, Bloomberg, BCA Economist

Panel 2. Recent foreign inflows have allowed Indonesian yield curve to come down



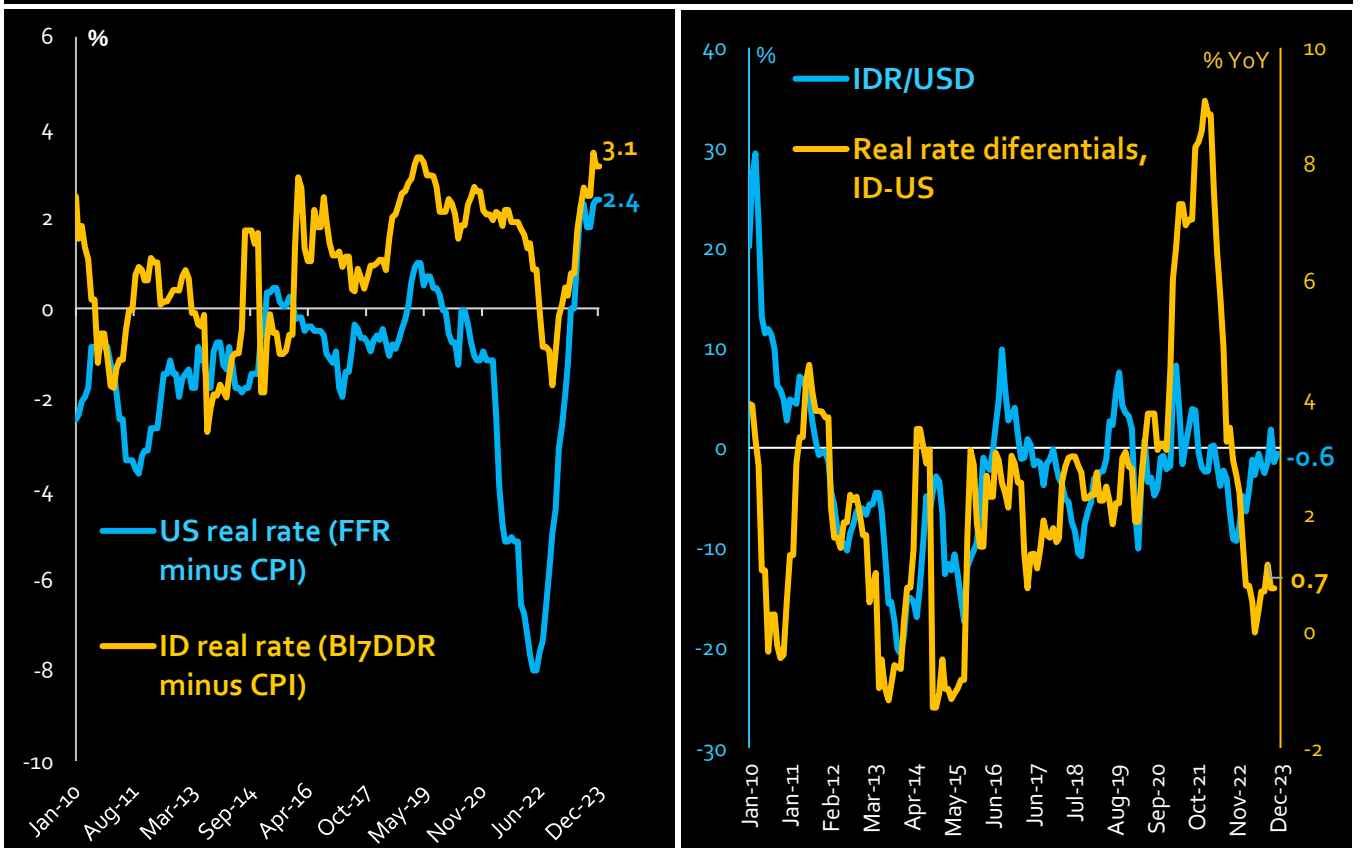
Source: MoF, BI, Bloomberg, BCA Economist

Panel 3. Loan growth have been accelerating despite the slump in deposit growth



Source: OJK, BI, BCA Economist

Panel 4. Real rate differentials remain crucial for IDR outlook, despite recent partial decoupling



Source: BI, Bloomberg, BCA Economist

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	20-Dec	-1 mth	Chg (%)
US	5.50	Dec-23	2.40	Baltic Dry Index	2,150.0	1,820.0	18.1
UK	5.25	Dec-23	1.35	S&P GSCI Index	545.8	556.7	-2.0
EU	4.50	Dec-23	2.10	Oil (Brent, \$/bbl)	79.7	80.6	-1.1
Japan	-0.10	Jan-16	-3.40	Coal (\$/MT)	138.3	127.6	8.3
China (lending)	2.50	Dec-23	4.85	Gas (\$/MMBtu)	2.48	2.62	-5.3
Korea	3.50	Nov-23	0.20	Gold (\$/oz.)	2,031.4	1,980.8	2.6
India	6.50	Dec-23	0.95	Copper (\$/MT)	8,488.5	8,168.2	3.9
Indonesia	6.00	Nov-23	3.14	Nickel (\$/MT)	16,621.0	16,672.5	-0.3
Money Mkt Rates	20-Dec	-1 mth	Chg (bps)	CPO (\$/MT)	795.8	812.4	-2.0
SPN (1M)	5.88	5.80	7.6	Rubber (\$/kg)	1.44	1.47	-2.0
SUN (10Y)	6.48	6.94	-45.7	External Sector	Nov	Oct	Chg (%)
INDONIA (O/N, Rp)	5.85	5.85	0.0	Export (\$ bn)	22.00	22.15	-0.67
JIBOR 1M (Rp)	6.65	6.66	-0.7	Import (\$ bn)	19.59	18.67	4.89
Bank Rates (Rp)	Sep	Aug	Chg (bps)	Trade bal. (\$ bn)	2.41	3.47	-30.56
Lending (WC)	9.02	8.96	5.79	Central bank reserves (\$ bn)*	138.1	133.1	3.73
Deposit 1M	4.33	4.29	4.24	Prompt Indicators	Nov	Oct	Sep
Savings	0.66	0.66	0.38	Consumer confidence index (CCI)	123.6	124.3	121.7
Currency/USD	20-Dec	-1 mth	Chg (%)	Car sales (%YoY)	-7.5	-13.8	-20.1
UK Pound	0.791	0.802	1.42	Motorcycle sales (%YoY)	-2.8	-4.0	-0.9
Euro	0.914	0.916	0.25	Manufacturing PMI	Nov	Oct	Chg (bps)
Japanese Yen	143.6	149.6	4.22	USA	46.7	46.7	0
Chinese RMB	7.139	7.214	1.06	Eurozone	44.2	43.1	110
Indonesia Rupiah	15,510	15,493	-0.11	Japan	48.3	48.7	-40
Capital Mkt	20-Dec	-1 mth	Chg (%)	China	50.7	49.5	120
JCI	7,219.7	6,977.7	3.47	Korea	50.0	49.8	20
DJIA	37,082.0	34,947.3	6.11	Indonesia	51.7	51.5	20
FTSE	7,715.7	7,504.3	2.82				
Nikkei 225	33,675.9	33,585.2	0.27				
Hang Seng	16,613.8	17,454.2	-4.81				
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				

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



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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 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 Rupiah's fundamental exchange rate

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