FOLLOW THE MONEY

Indonesian macroeconomic and flow-of-funds dashboard

Edition 1 *15 July 2024*

Running low on savings fuel

Barra Kukuh Mamia
Senior Economist

Executive Summary

- Government spending had been the main growth driver in H1-24, despite weak revenues and slow SBN issuance. While the global market conditions are set to improve in H2, its large financing gap would probably compel it to substitute some SBN issuance for loans.
- Liquidity from fiscal spending mostly accumulated in private non-financial corporations, with limited "trickle down" to households amid lack of recruitment in most labor-intensive sectors. While investment in capital-intensive areas (mining, metals, utilities) has remained strong, growth momentum is broadly slowing in manufacturing and construction.
- Household consumption is slowing after a euphoric Q1, but for two very different reasons. High-income households reduce their spending on big ticket items, and instead is saving more in SBN (but not bank deposits). Meanwhile, low-income households and SMEs are facing dwindling liquidity, making their consumption even more contingent on extraneous sources – loans from fintech, social spending, etc.
- The Rupiah's weakness in Q2 was entirely predictable given the saving-investment (S-I) gap, but should stabilize in H2 as foreign inflows return to the SBN market. These inflows could not come soon enough, as the government's large financing gap is starting to "crowd out" spending by other sectors.
- While GDP growth may only decline slightly in Q2 (to about 4.97% YoY), its NBB*-neutral growth potential – our estimated fastest rate at which Indonesia could grow without significant financing gap – has stuck around 4.2% for the past three quarters.

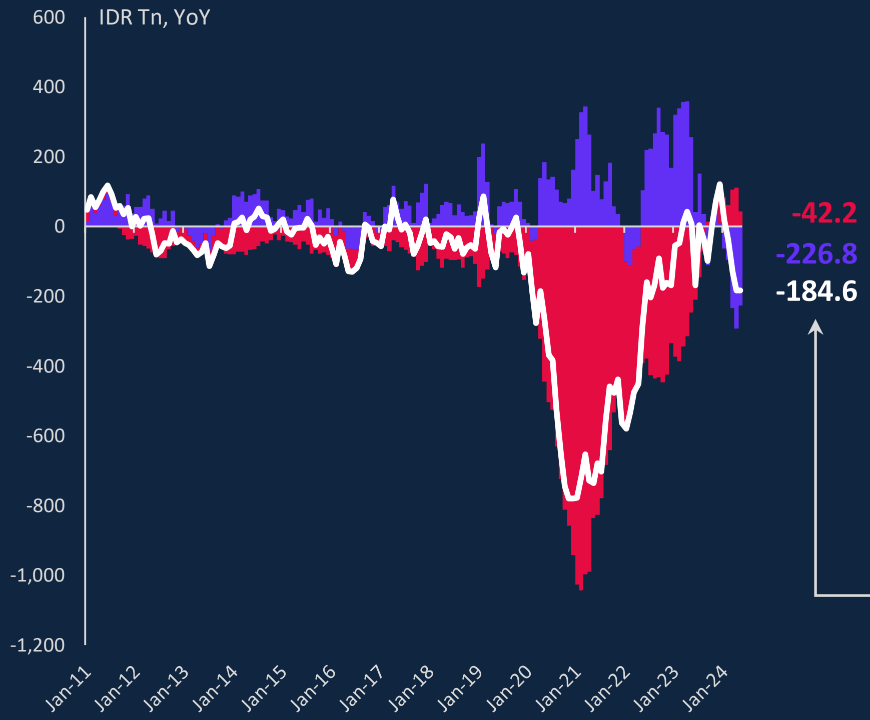
** Net Bank Balance*

Part 1

Government sector

Government: Draining the coffers

General government



— Net bank balance (NBB), change YoY:
- Growth in deposit (in BI and banks)
- Growth in borrowing (loans and bonds)

How to read this chart:

Over the past year (**May-23 to May-24**), government borrowing via loans and bonds – as reflected on the balance sheets of BI and commercial banks – declined by 42.2 Tn ...

... while government deposits at BI and commercial banks declined by 226.8 Tn

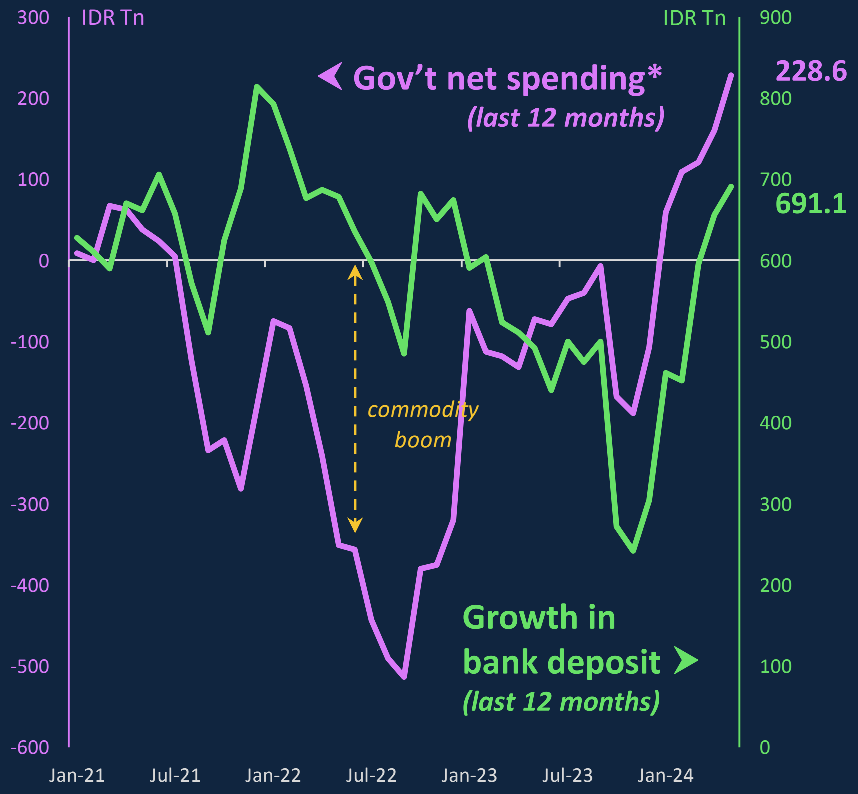
The government's **net liquidity** (or **NBB***) consists of its deposits less its borrowings, which therefore fell by 184.6 Tn

* this is termed net bank balance, as it is a partial measure of net financial balance in Flow of Funds statistics, albeit only the part recorded by BI and commercial banks

Source: *BI, MoF, OJK, calculations by BCA Economic Research*

Public dissaving = private saving

- Government finances are in an unusual position. Revenue and bond issuance are off to a slow start, while expenditures are frontloaded to coincide with Elections (especially goods and social spending).
- Spending in H1, then, were financed in part by drawing down on cash balances which had been accumulated in 2022-23.
- Such "fiscal dissaving" adds liquidity to the banking system, as the government draws cash out of its account at BI. This close correlation between government net spend and bank deposit is particularly pronounced after the commodity boom ended in early 2023.
- As we will see, liquidity from recent fiscal spending mainly accrues to the corporate sector rather than households. There is, as such, no lasting improvement in purchasing power, and the consumption bump in Q1 was a fleeting one.
- The government's challenge for H2 is thus two-fold. It has to continue providing liquidity to households, while also keeping positive cash balance (SiLPA) for the fiscal year.

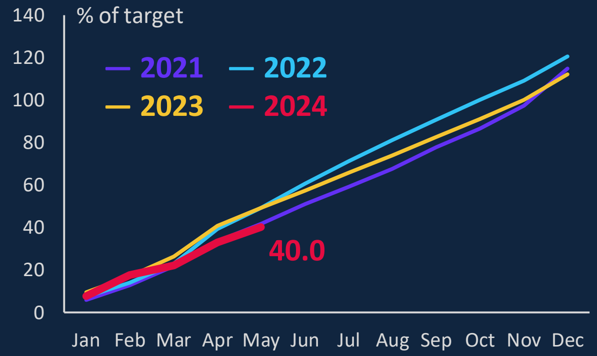


Source: *MoF, OJK, calculations by BCA Economic Research*

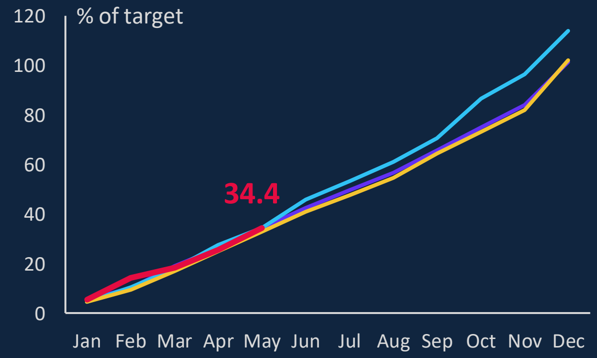
** expenditure realized minus revenue (tax and non-tax) received*

Faster spending, slower revenue

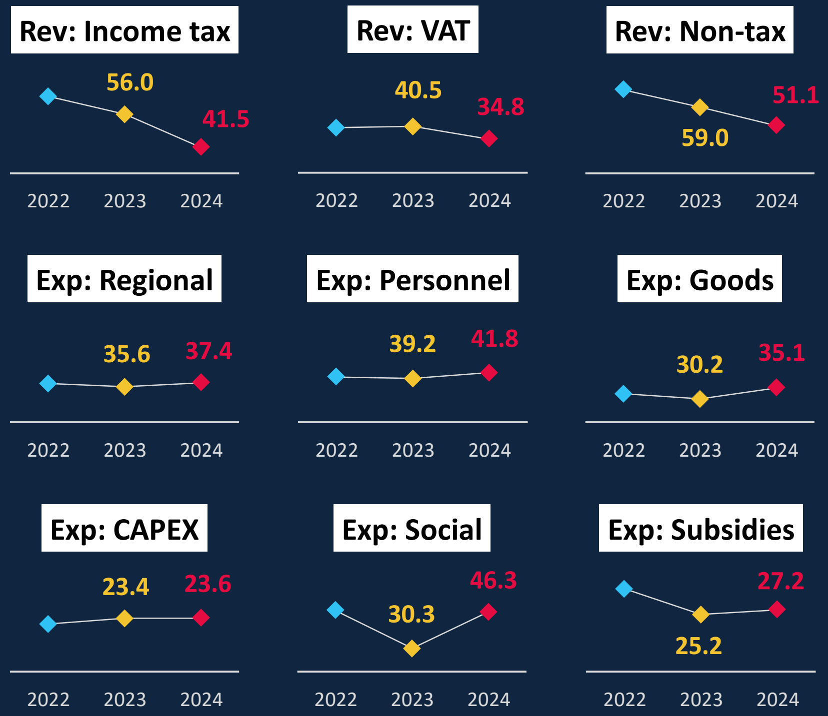
GOV'T REVENUE
(realization as % of target)



GOV'T SPENDING
(realization as % of target)

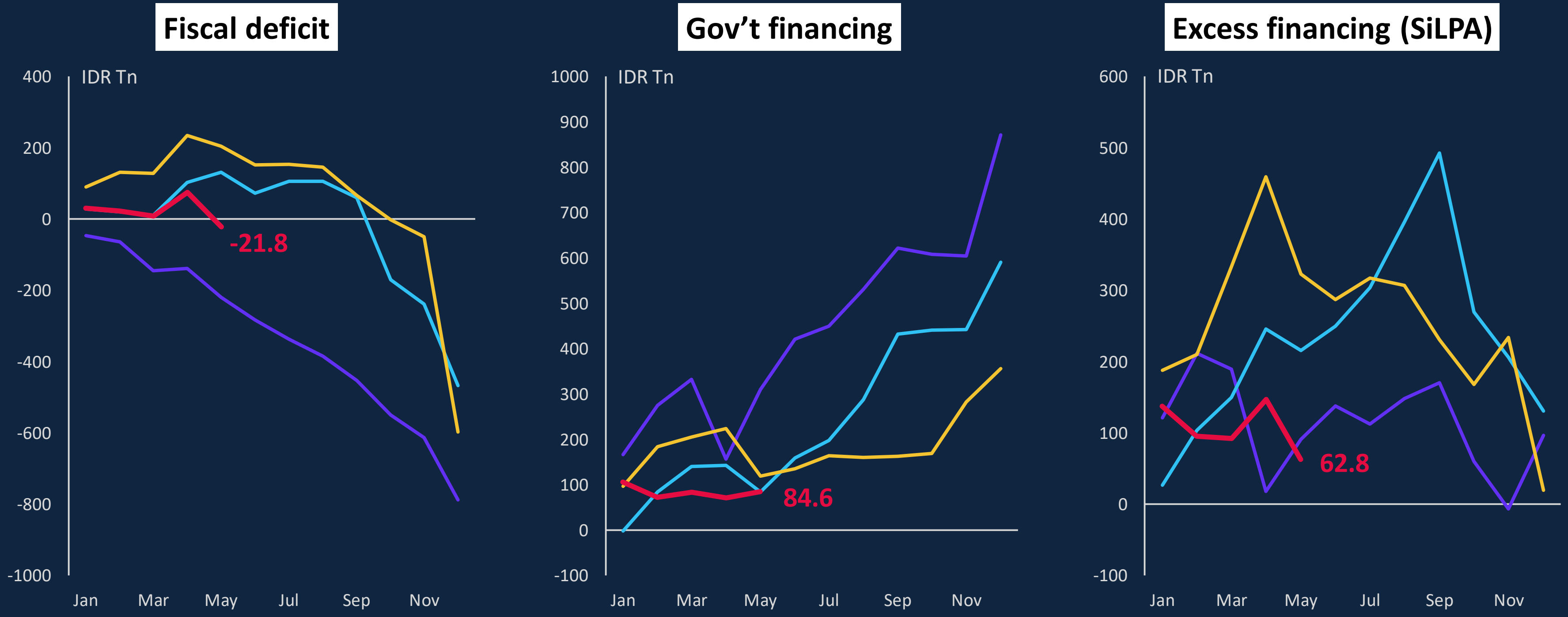


Government revenue & expenditure (realization, May)



Source: *MoF, BCA Economic Research*

More financing needed in H2-24



Government deficit & financing (realization, May):
— 2021 — 2022 — 2023 — 2024

Source: *MoF, BCA Economic Research*

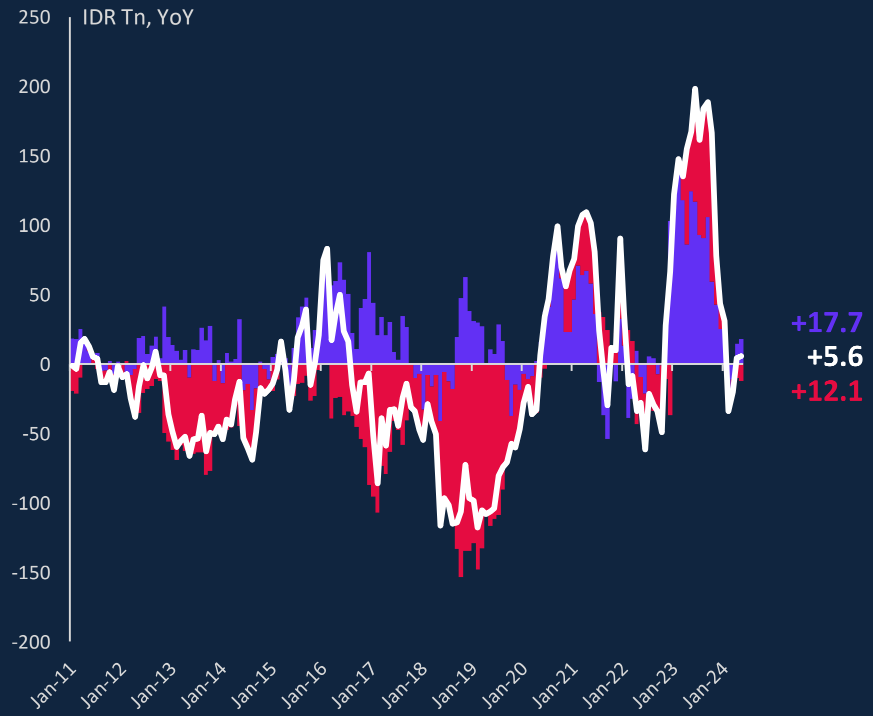
Part 2

Corporate sectors

SOEs: Limited cash flow

- While corporate savings benefited from fiscal spending in H1, the effect was more apparent for private companies instead of SOEs.
- Indeed, there is as yet no major cash injection cycle for SOEs, like the one we saw in late 2022. Liquidity in SOE-dominated sectors, such as utilities and construction, may thus remain an issue in the short-term.
- Despite a "mini-boom" in metal prices in H1, it seems to have had little impact on corporate savings. As it turned out, the increase in prices was not matched by export volumes, and the boom fizzled amid reports of excess inventories in China.
- Loan growth has been strong, but concentrated in particular industries such as mining, metals, chemicals, and utilities. All these are capital-intensive sectors, which explains the strong growth in investment loans.

State-owned enterprises*

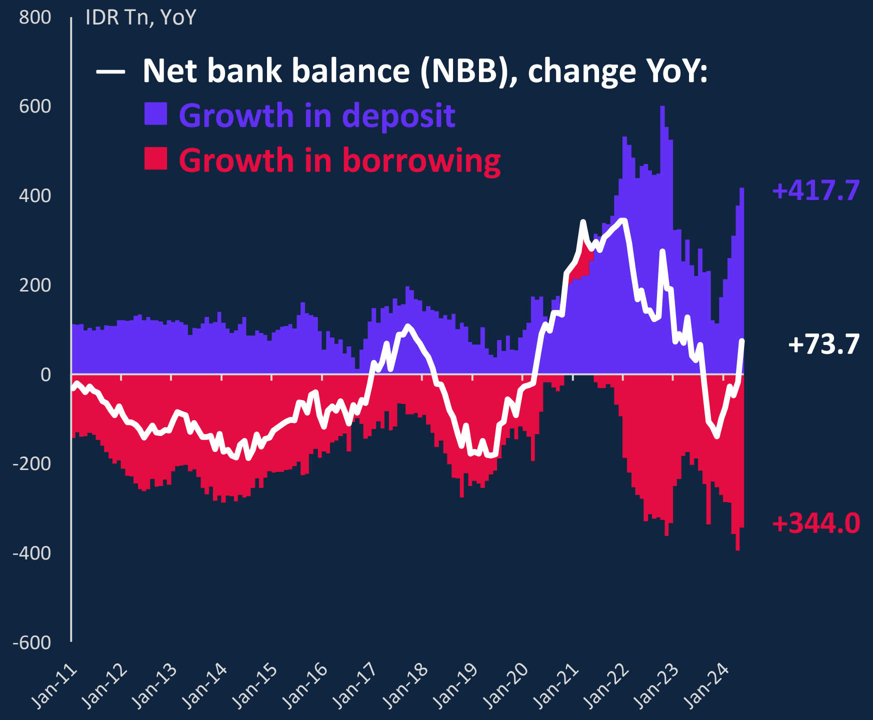


Source: *BI, MoF, OJK, calculations by BCA Economic Research*
** excluding financial institutions*

Private corporations: The great bifurcation

- Unfortunately, the opposite seems to be true for precisely the sectors which tend to employ the most people – namely labor-intensive industries, construction, and services. Many of these sectors are seeing falling output or higher NPL.
- The ensuing lack of recruitment may explain why deposit has accumulated among businesses, with very little "trickle down" towards households.
- Labor-intensive vs. capital-intensive is not the only notable bi-furcation point in the economy. Looking at the logistics data, we can also see diverging trend between domestic activities (trending up) and international ones (trending down).
- This may well be correlated with recent trade policy flip-flops, vacillating between a more protectionist and a more *laissez-faire* approach.
- The ensuing import disruptions might benefit some domestic players, but in broader terms it seems to sap the momentum from our manufacturing sector, where peers such as India or Vietnam are accelerating.

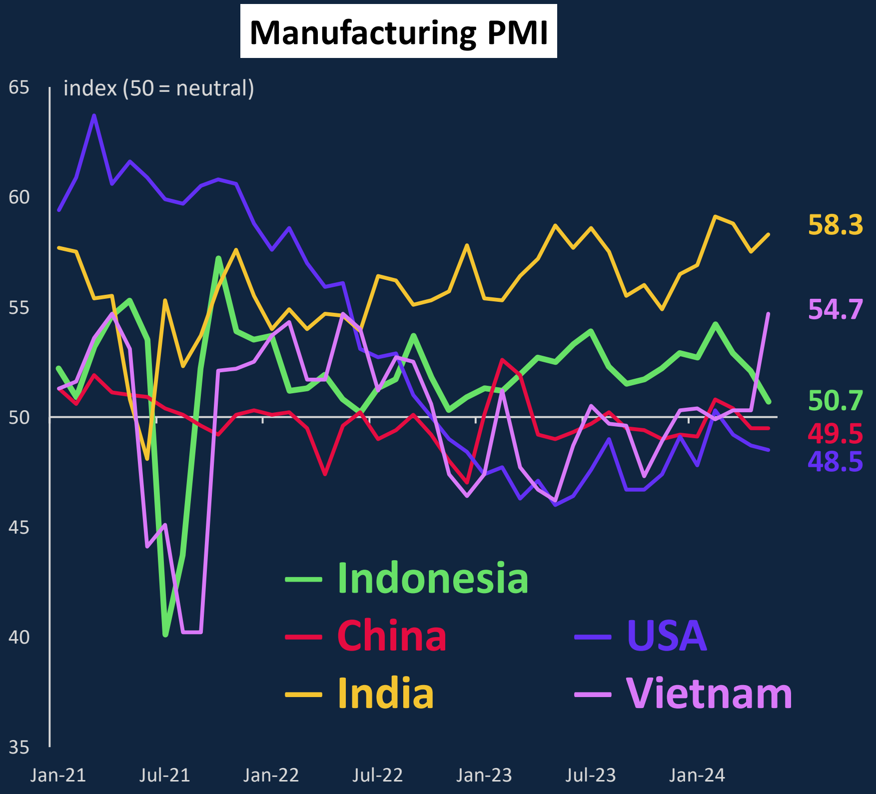
Private corporations*



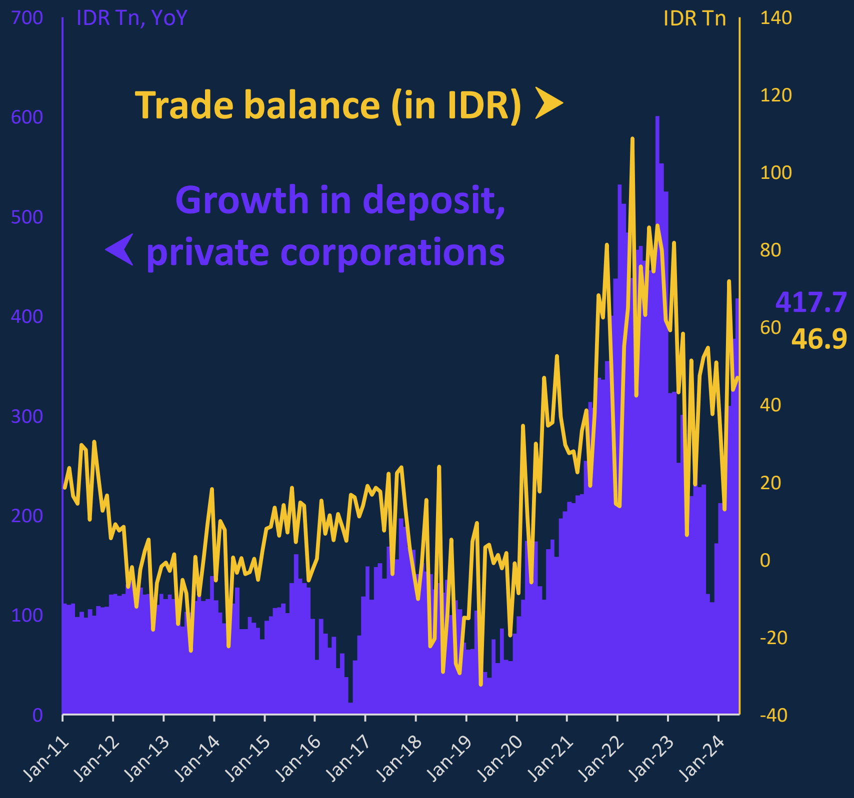
Source: *BI, MoF, OJK, calculations by BCA Economic Research*

** excluding financial institutions*

Slowing momentum in manufacturing and exports



Source: *Bloomberg, BCA Economic Research*



Source: *BI, MoF, OJK, BPS, Bloomberg, calculations by BCA Economic Research*

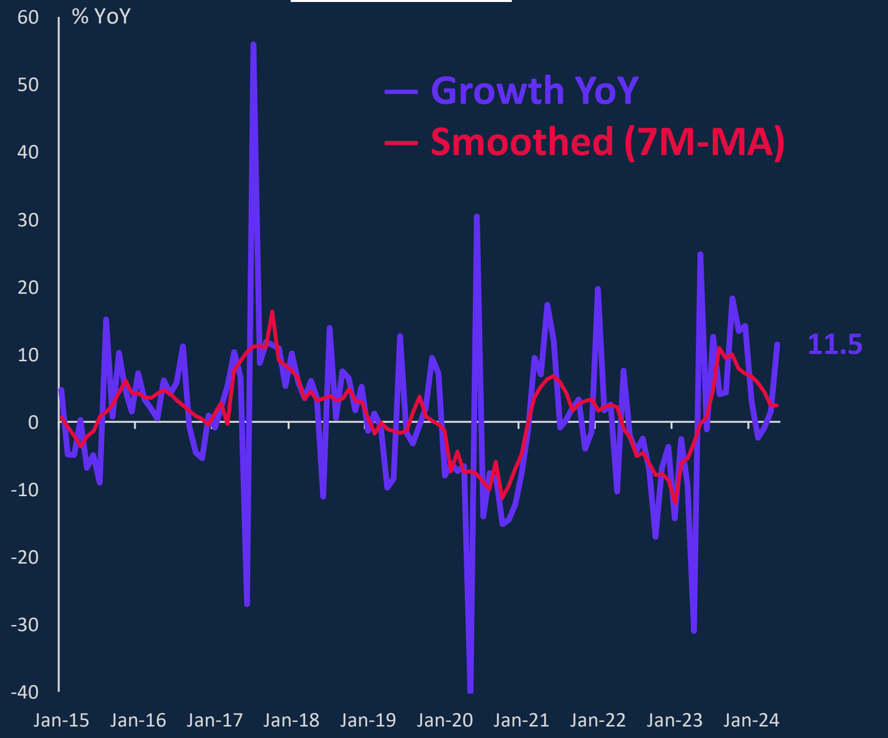
Appetite to invest remains, but not in construction

Loan and tax receipts growth, all corporations

	Tax Receipts Jan-May YoY %	Loan Growth Apr YoY %	NPL Growth Apr YoY %	NPL Ratio Apr %
Agriculture & fisheries		3.6	15.7	1.7
Mining	-60.4	35.6	-30.6	1.1
Manufacturing	-14.2	13.4	-13.6	3.0
Utilities		32.4	-68.3	0.1
Construction	7.6	-4.5	6.4	2.9
Real estate		11.7	16.1	1.7
Business services	11.6			
Wholesale & retail	-0.2	22.1	-20.5	2.2
Logistics	1.2	28.0	-6.6	0.6
IT & communication	14.9			
Hotel & restaurant		9.7	-32.9	3.4
Finance & insurance	12.6	28.9	16.7	0.4
Other services		6.1	-41.7	0.5
ALL SECTORS		16.4	-11.3	1.9

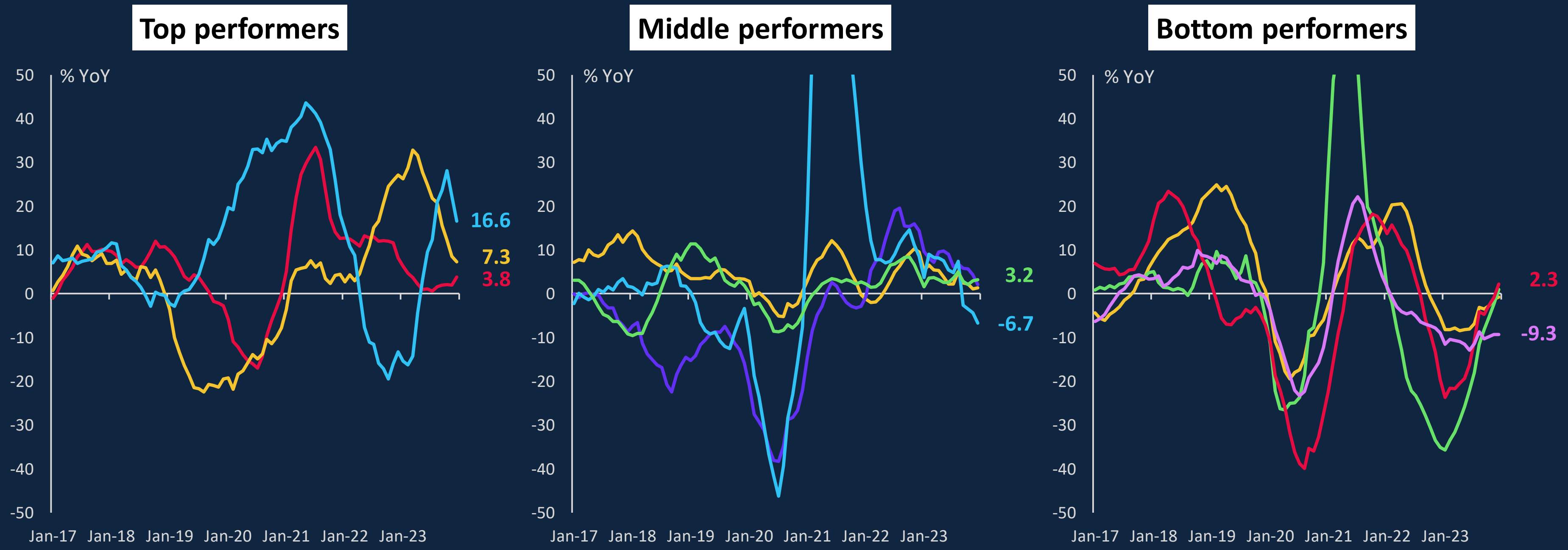
Source: *OJK, MoF, calculations by BCA Economic Research*

Cement sales



Source: *Indonesia Cement Association, CEIC, BCA Economic Research*

Bifurcation #1: Capital- vs. labor-intensive industries



Medium/large manufacturing establishments, monthly production index:

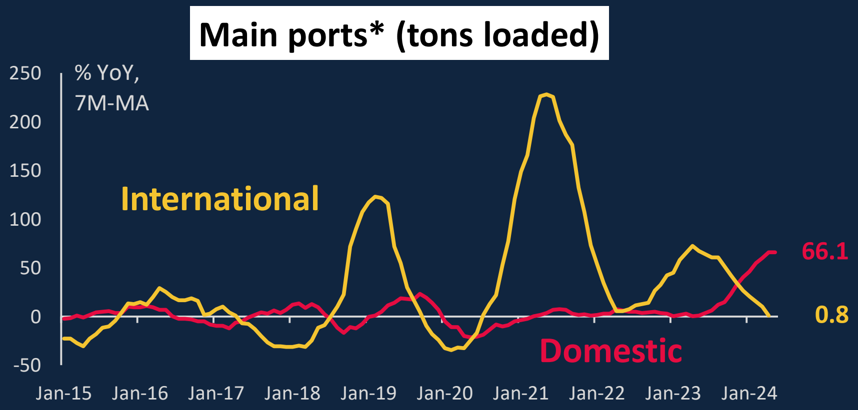
— Pharmaceuticals — Base metals
— Metal articles

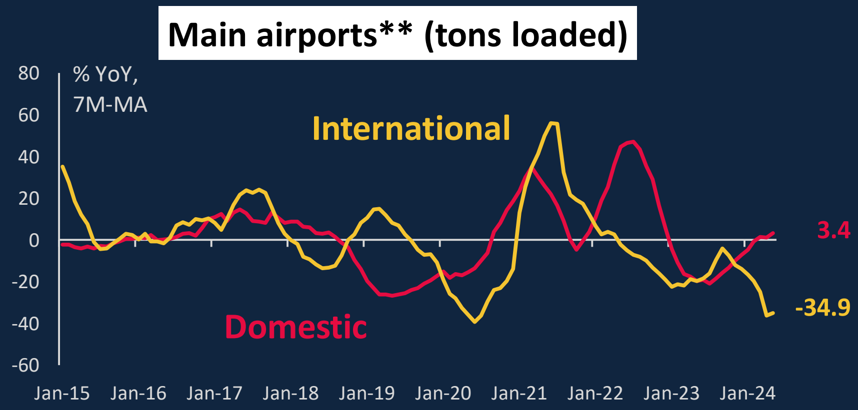
— Food industry — Pulp & paper
— Motor vehicles — Electronics

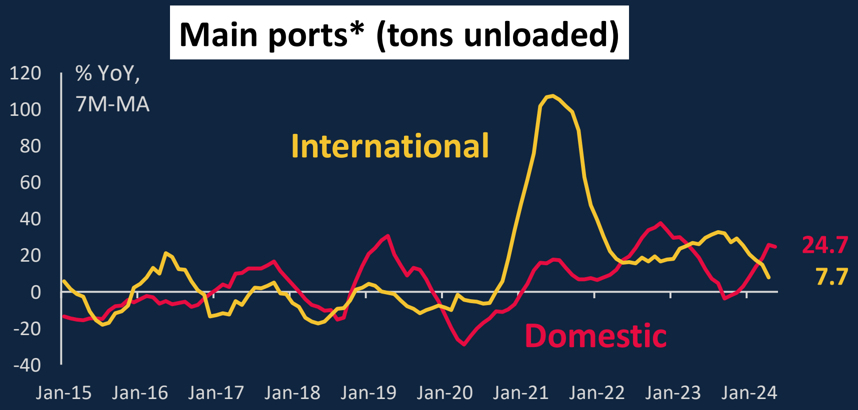
— Beverages — Furniture
— Textiles — Footwear

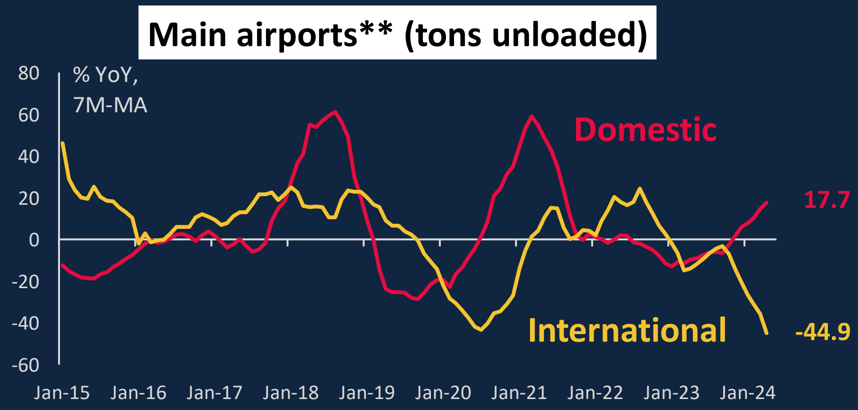
Source: *BPS, CEIC, BCA Economic Research*

Bifurcation #2: Domestic vs. international cargo









Source: *BPS, CEIC, BCA Economic Research*

** Jakarta, Surabaya, Medan, Makassar*

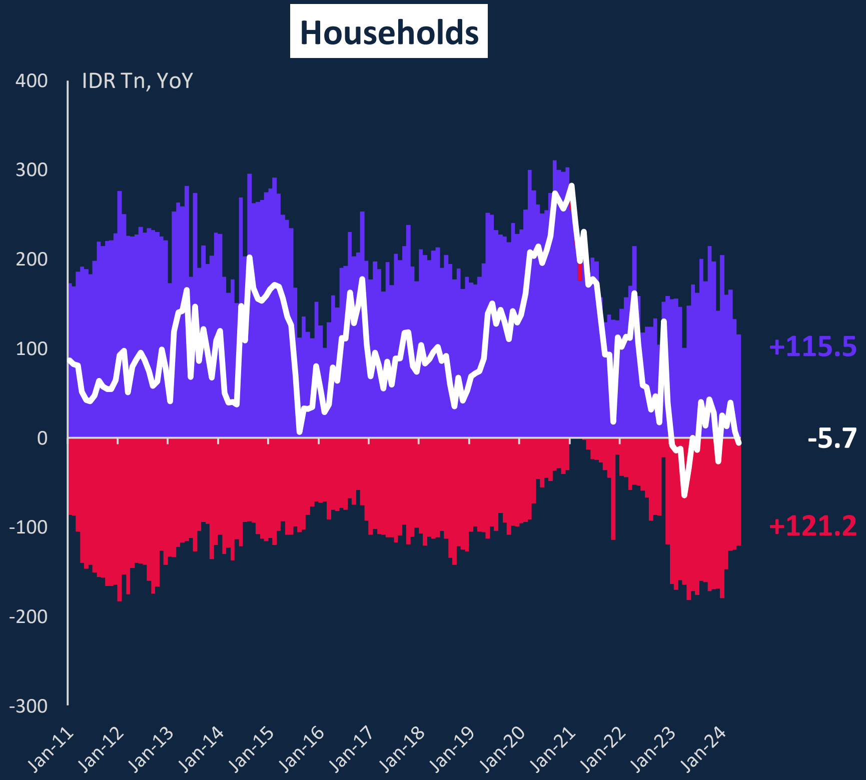
*** Jakarta, Surabaya, Medan, Denpasar (plus Makassar for domestic)*

Part 3

Household sectors

Households: After the sugar rush

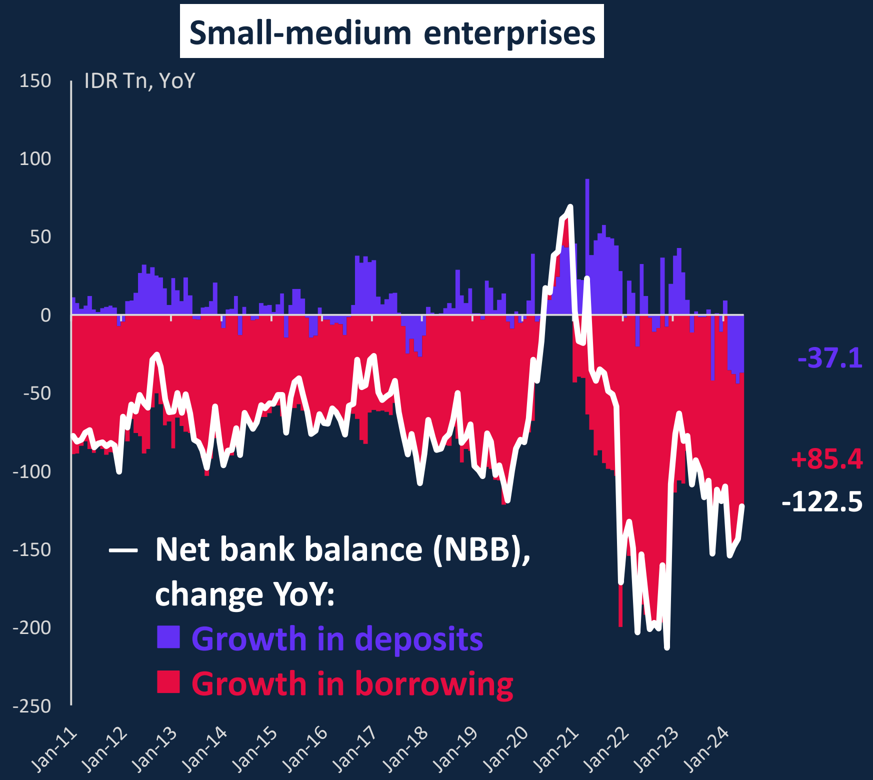
- Following the "sugar rush" in Q1, households are increasingly being squeezed on both the deposit and borrowing sides. The latter was especially detrimental for big ticket items like motor vehicles, but retail sales in broad terms are also slowing down.
- Another worry is the seemingly structural decline in household saving rates. While households generated the bulk of national savings before the pandemic, they have barely been net savers since mid-2022.
- There are various explanations behind this shift – from food inflation to the rise of online gambling and speculative investment to the spending habits of the younger generations. All of these, of course, contain some kernel of truth.
- Another possible explanation is rising inequality. Notably, if we add government bond (SBN) holdings to our household NBB, we could see that saving rates among the high/middle-income households have not fallen *per se*.
- Much of the savings, however, have been reallocated towards government securities – a clear symptom of "crowding out".



Source: *BI, MoF, OJK, calculations by BCA Economic Research*

SMEs: Treading water

- But while high-income households are still saving, low-income ones are in a tougher position, as shown by the surge of NPL (especially motorcycle loans) and an increased reliance on P2P loans.
- The struggles of SMEs, which often have low-income customer base, further corroborates this notion. In spite of robust SME loan growth – thanks to RPIM regulations whereby banks have to increase the portion of SME loans in their portfolio – their income and savings have been in decline since mid-2023.
- Better days are still to come – with Regional Elections as well as populist programs from the next government – but treading water seems to be the best that these groups could do in Q3.



Source: *BI, MoF, OJK, calculations by BCA Economic Research*

Growing risks, fintech as the lifeline?

SME loans (from banks and fintech)

	Loan Growth Apr YoY %	NPL Growth Apr YoY %	NPL Ratio Apr %
Agriculture & fisheries	13.4	50.7	2.6
Mining	23.5	5.3	4.5
Manufacturing	4.8	17.7	4.4
Construction	0.2	-5.1	10.8
Real estate	12.9	44.5	5.1
Wholesale & retail	3.8	16.0	4.6
Logistics & communication	12.2	14.8	3.7
Hotel & restaurant	8.6	27.4	3.8
Finance & insurance	18.3	14.0	5.5
Other services	13.5	25.4	3.1
BANK LOANS, ALL SECTORS	7.3	18.9	4.3
FINTECH LOANS, BUSINESSES	-6.0	-42.5	2.8

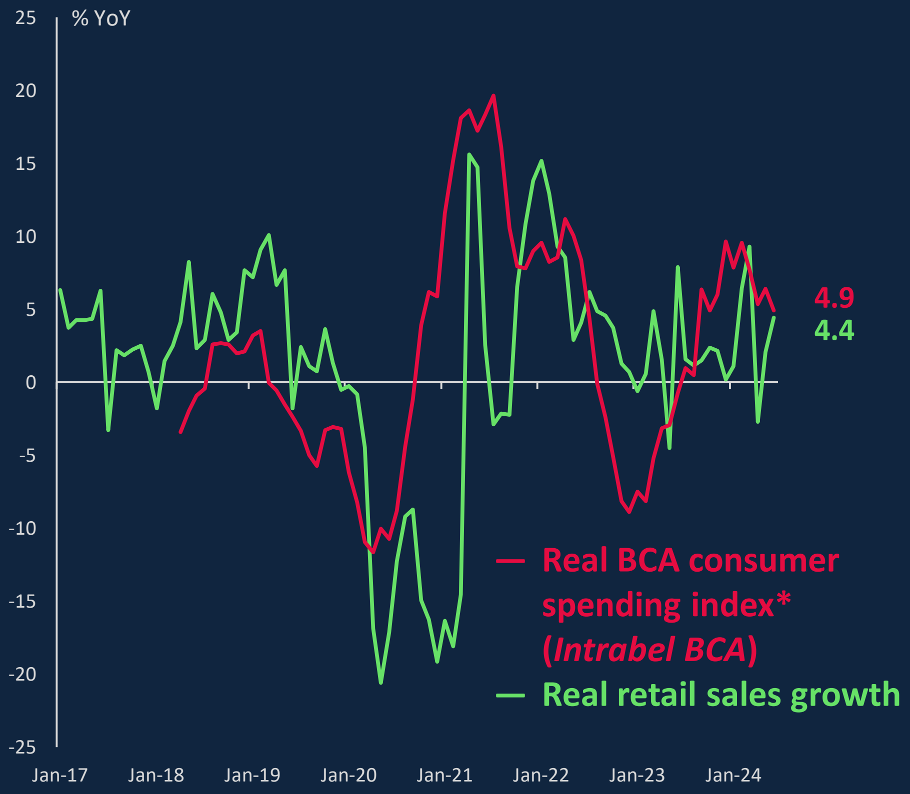
Source: *OJK, calculations by BCA Economic Research*

Consumer loans (from banks and fintech)

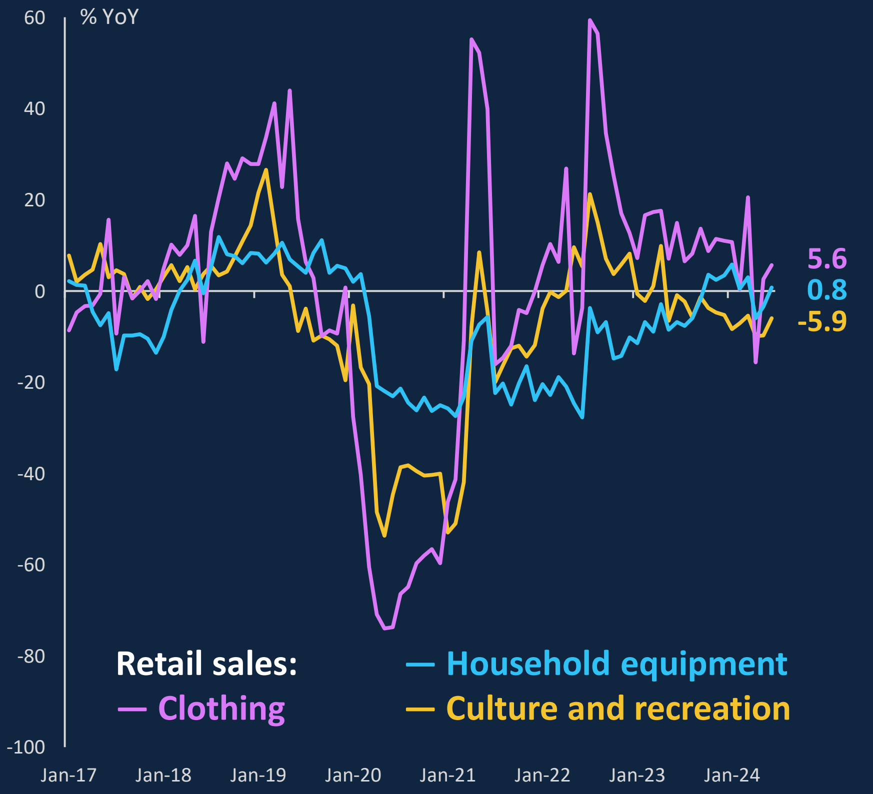
	Loan Growth Apr YoY %	NPL Growth Apr YoY %	NPL Ratio Apr %
Landed house	14.0	16.8	2.5
Flat / apartment	6.5	32.6	2.8
SOHO (shop-office & home-office)	35.0	33.9	5.3
Motor vehicles	10.8	37.1	2.1
Household appliances	7.2	12.2	1.4
Others	9.7	22.8	1.1
BANK LOANS, ALL PURPOSES	10.3	18.0	1.9
FINTECH LOANS, INDIVIDUALS	28.1	21.0	7.2

Source: *OJK, calculations by BCA Economic Research*

Demand slows across the board



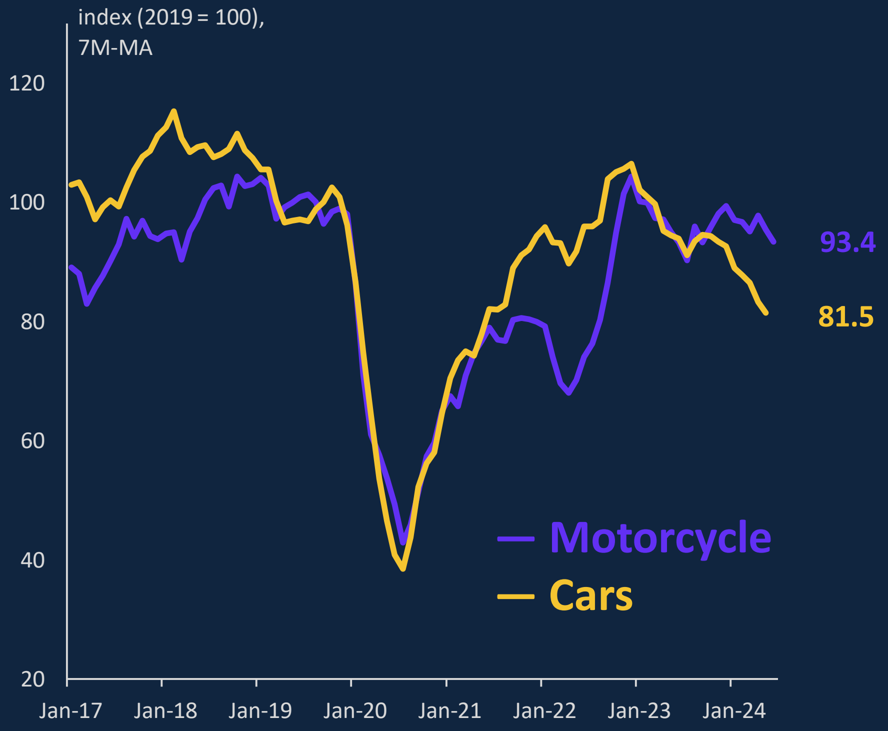
Source: *BI, BCA Big Data, calculations by BCA Economic Research*
** deflated by CPI, 7M-MA*



Source: *BI, BCA Economic Research*

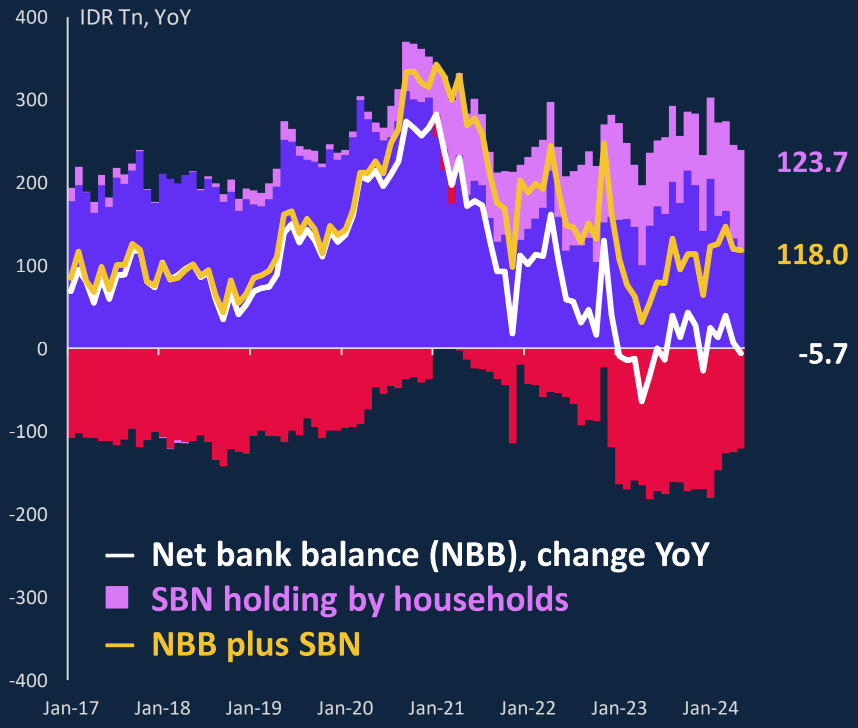
The upper classes are buying less cars, more bonds

Vehicle sales



Source: *Gaikindo, AISI, CEIC, BCA Economic Research*

Households, with/without SBN



Source: *BI, MoF, OJK, calculations by BCA Economic Research*

Part 4

Macroeconomic implications

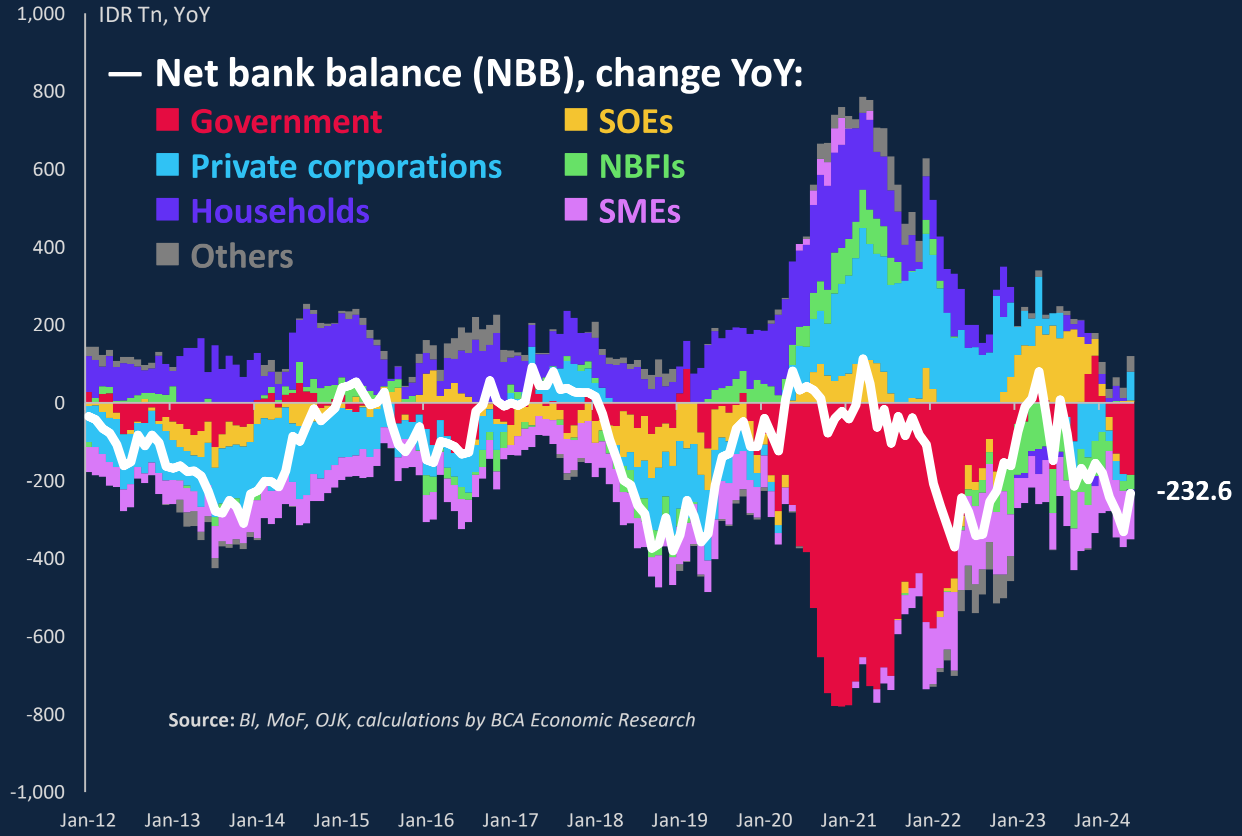
Big data: Real GDP to soften, but nominal gets a bump

- Real growth is poised to slow in Q2 to roughly 4.97% YoY, in line with our Big Data and the loss of temporary drivers from Q1.
- Nonetheless, GDP might fare better in nominal terms (at around 7.2%). This is due to stronger liquidity from earlier fiscal disbursement, as well as better terms of trade from higher commodity prices in Q2.

Source: *BPS, BCA Big Data, calculations by BCA Economic Research*

** nominal, 7M-MA*

NBB: Everyone wants to spend, but no one is saving



Source: *BI, MoF, OJK, calculations by BCA Economic Research*

How to read this chart:

Source of funds:

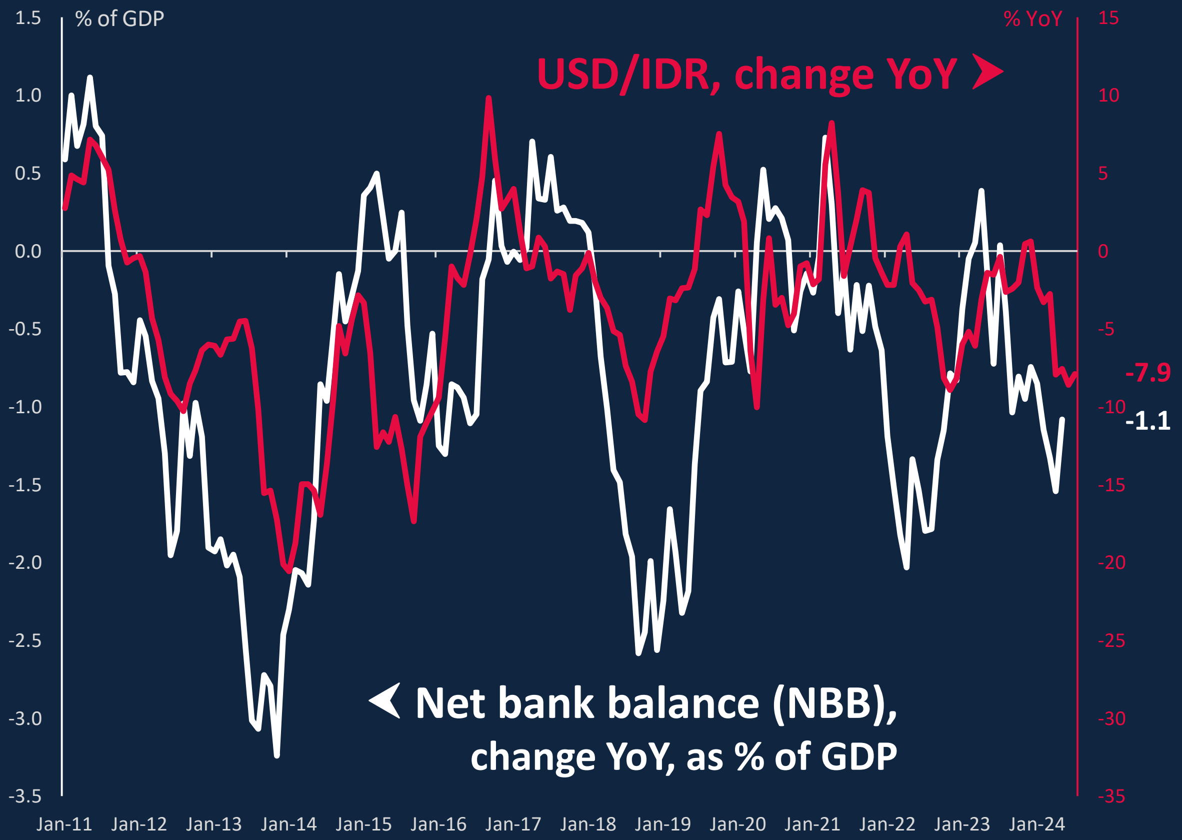
Before the pandemic, households provided the bulk of deposit growth that finances new loans, but over the past year net savings have been very limited across all sectors

User of funds:

Sector(s) with the largest net borrowing is typically the main growth driver – in H1-24, this role was largely assumed by the government

When there is less source than use of funds, growth relies on external financing (without which IDR would potentially weaken)

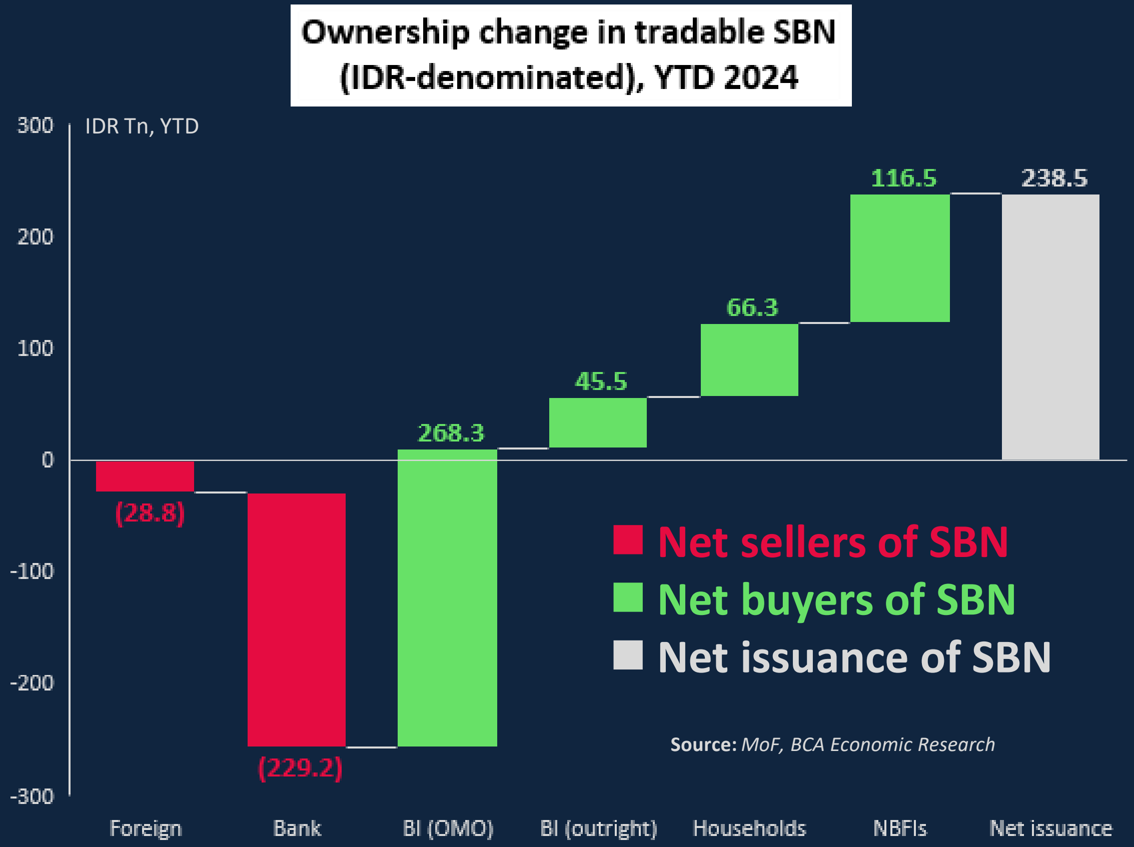
Rupiah depreciation: Predictable but curable



- The flip side of this growth, however, is a sizable financing (NBB) deficit, as almost no sectors saves sufficiently to finance their (or each other's) investment.
- In the past, all such deficits had led to weaker Rupiah, so the depreciation in Q2 did not come as a surprise to us.
- Nonetheless, as the bulk of the NBB deficit are from the government side, there is a straightforward remedy for the IDR's woes – simply issuing more government bonds and have it bought by foreigners. The main problem with that, of course, is that foreign demand has been limited and volatile.

Source: *BI, MoF, OJK, Bloomberg, calculations by BCA Economic Research*

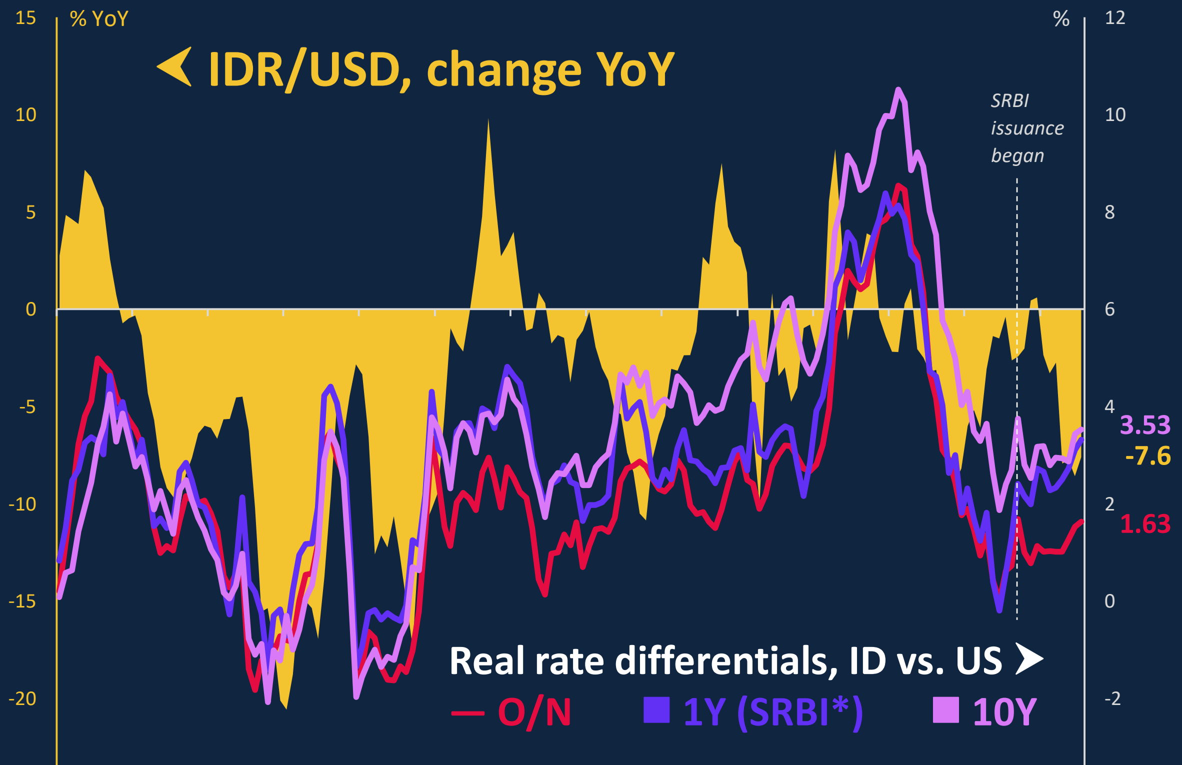
Inflow uncertainty prompts partial switch to loans



Source: *MoF, BCA Economic Research*

- The government's caution in issuing SBN during H1 was partly caused by this weak demand, as expectations of FFR cuts subsided.
- Now, with 50 bps FFR cuts back on the table, we should expect foreign flows to return. Still, the volume of bonds that the government will have to issue could pose a problem.
- As of July 4th, issuance (IDR and FX) totaled IDR 281 Tn, leaving about IDR 385 Tn left to be issued.
- One way to deal with this is to issue less bonds and take more bilateral or multilateral loans. In a recent meeting we attended, the MoF floated exactly such an idea, which could reduce SBN issuance by roughly 100 Tn.

Limited room for yield decline



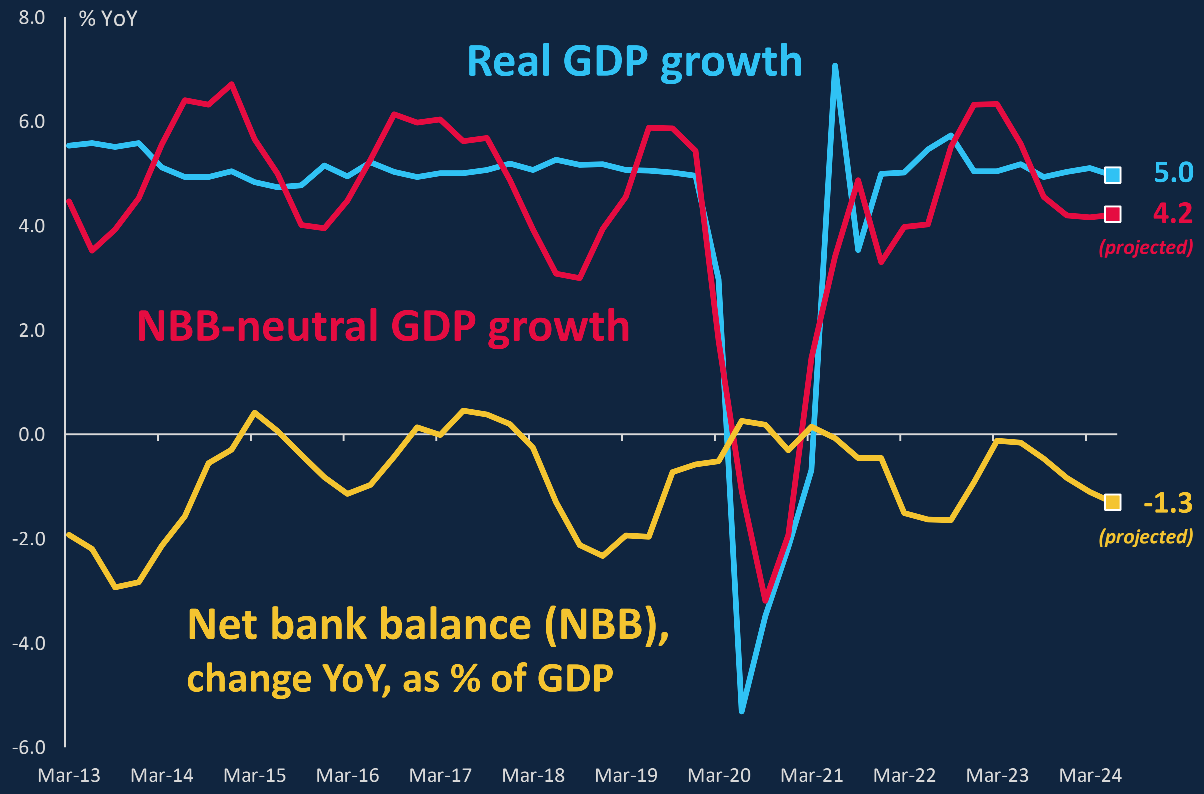
Source: *Bloomberg, calculations by BCA Economic Research*

** since Sep-23, this refers to 12M SRBI rate*

- Reduced bond supply and quicker FFR cuts should, in theory, lead to lower SBN yields.
- Keep in mind, however, that the yield curve has been rather distorted by BI's recent maneuver – issuing short-term SRBI and absorbing long-term SBN.
- Renewed inflows, then, might allow BI to unwind this maneuver. In that case, the yield reduction might be offset by bear steepening effect, as BI offloads some of its SBN holdings to banks and foreign investors.
- At the moment, we see the 10Y yields ranging between 6.6 – 7.0%, even if the FFR is cut by 50 bps as the market expects.

Crowding out effect could drastically curtail growth

- Without inflows to match, the bond issuance would have to be met by increased savings by the private sector – further ramping up the crowding out phenomenon.
- How bad could this be? Hypothetically in a "perfect crowding out" scenario, we estimate real GDP growth to fall to about 4.2% YoY.
- Of course, private savings do not have to perfectly offset public dis-savings. But as we saw, NBB deficit increases the chance of IDR depreciation.
- Our **NBB-neutral GDP growth rate**, as such, is our attempt to estimate how fast Indonesia can grow without risking IDR depreciation at any moment in time.



Source: *BPS, BI, MoF, OJK, calculations by BCA Economic Research*

Projections of macroeconomic indicators

	2019	2020	2021	2022	2023	2024E
GDP growth (% YoY)	5.02	-2.07	3.69	5.32	5.04	**4.97**
GDP per capita (USD)	4,175	3,912	4,350	4,784	4,982	**5,149**
CPI inflation (% YoY)	2.59	1.68	1.87	5.51	2.61	**3.21**
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	**6.25**
10Y gov't debt yield (%)	7.04	5.86	6.36	6.17	6.45	**6.78**
USD/IDR exchange rate	13,866	14,050	14,262	15,568	15,397	**16,218**
Trade balance (USD Bn)	-3.3	+21.7	+33.8	+54.6	+37.0	**+32.6**
Current account balance (% of GDP)	-2.71	-0.42	+0.30	+0.98	-0.14	**-0.50**

Source : *BPS, BI, Bloomberg, BCA Economist estimates*

Notes:
- BI 7-day Repo Rate, 10Y yield, and USD/IDR exchange rate all refers to end of year position
- 10Y yield and USD/IDR exchange rate projections refer to fundamental values; actual market values may vary depending on market sentiment and technical factors

Scan for the link to our report depository or **click**:

bca.co.id/riset

BCA Economic & Industry Research

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

Nicholas Husni
Economist / Analyst
nicholas_husni@bca.co.id
+6221 2358 8000 Ext: 1079839

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