

BI Policy:

Bracing for Impact

Samuel Theophilus Artha **Barra Kukuh Mamia**
Economist/Analyst Senior Economist

21 November 2024

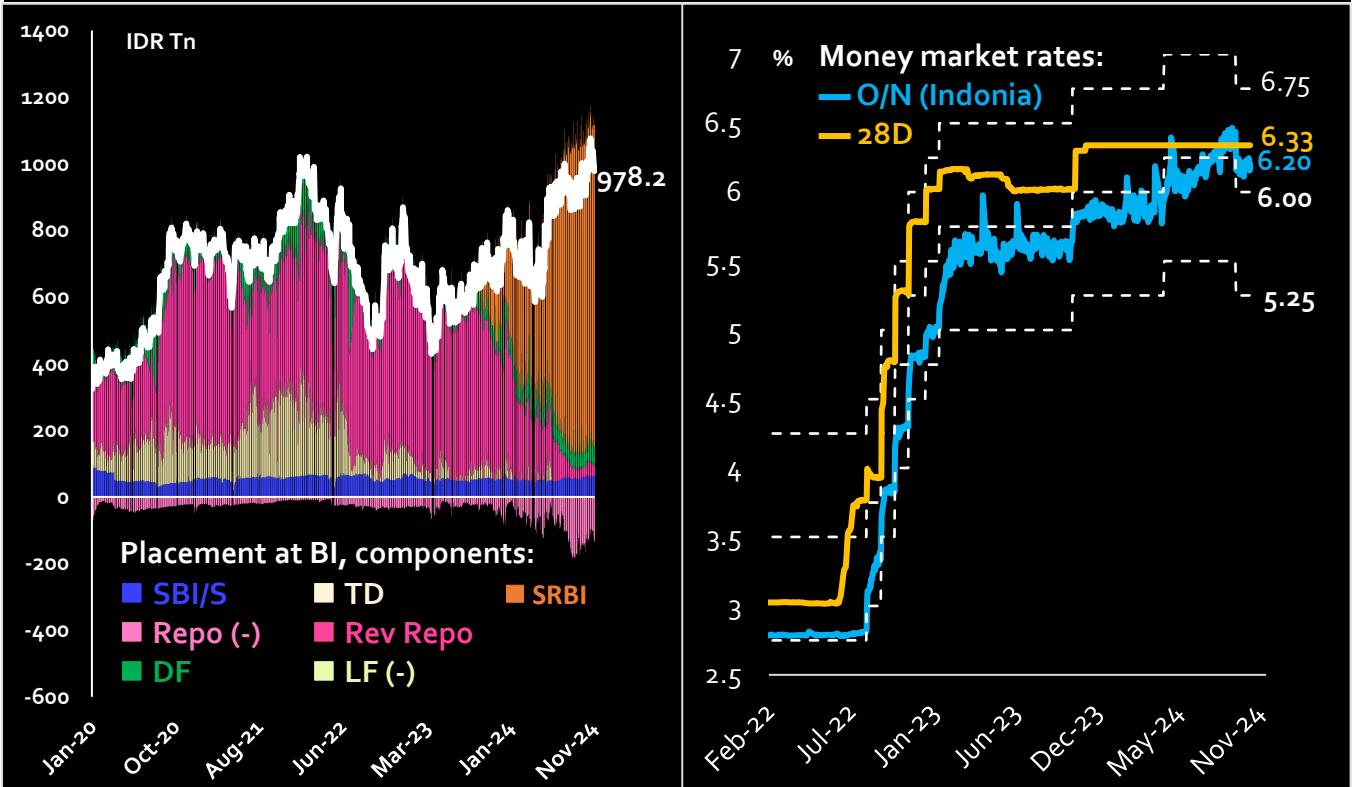
Executive Summary

- BI maintained the policy rate at 6%, driven by the recent sharp turn in global market outlook amid Trump's sweeping victory in the US Election.
- Trump's tariff and deportation policies could lead to higher US inflation and/or stronger Dollar, both equally unappealing outcomes for Indonesia.
- Rupiah has weathered the "Trump trade" quite well, due to BI's continuation of FX intervention and SRBI issuance strategies.
- Given tightening liquidity conditions in Indonesia and global markets, the government may be pushed to find more "creative" financing strategies, such as Danantara SWF or a third round of tax amnesty.

- BI kept its policy rate at 6.00% for the second consecutive month, affirming a conservative turn after its 25-bps cut in September. This decision mirrors the sharp turn in global market outlook, which has driven capital outflows and Rupiah depreciation since October.
- The elephant in the room, of course, is the election of Donald Trump for a second term, which raises fears over tariffs, mass deportations, and larger federal deficits—among many others. Furthermore, the GOP's clean sweep over Congress and his cabinet appointments so far has reduced the hopes that Trump would have his power checked or that he would take a more pragmatic approach. Full-speed Trumpism seems to be the new baseline, and the market is reeling from it.
- One common reasoning is that tariffs and deportations would lead to higher US inflation, in turn reducing the scope by which the Fed can cut rates next year. BI appears to agree with this assessment, as they now also expect (like the market consensus) that the Fed may only cut by a further 50 bps in 2025—as opposed to 75-100 bps a scarce two months ago.
- There is also another, equally troubling, possibility. When Trump launched a salvo of tariffs against China in 2018, the USD soared against the CNY and other emerging currencies. This stronger Dollar benefited US consumers, as they offset the tariff impact, and generally shifted the burden towards Chinese consumers instead. As such, the political cost (for Trump) to implement more of such tariffs may not be as high as imagined.
- From Indonesia's perspective, none of these looks appealing. Despite not being a prime target for industrial relocation from China (unlike, say, Vietnam), Indonesia's trade surplus against the US may put it in Trump's crosshairs. Meanwhile, a stronger Dollar also implies weaker commodity prices, especially against the backdrop of industrial oversupply in China.

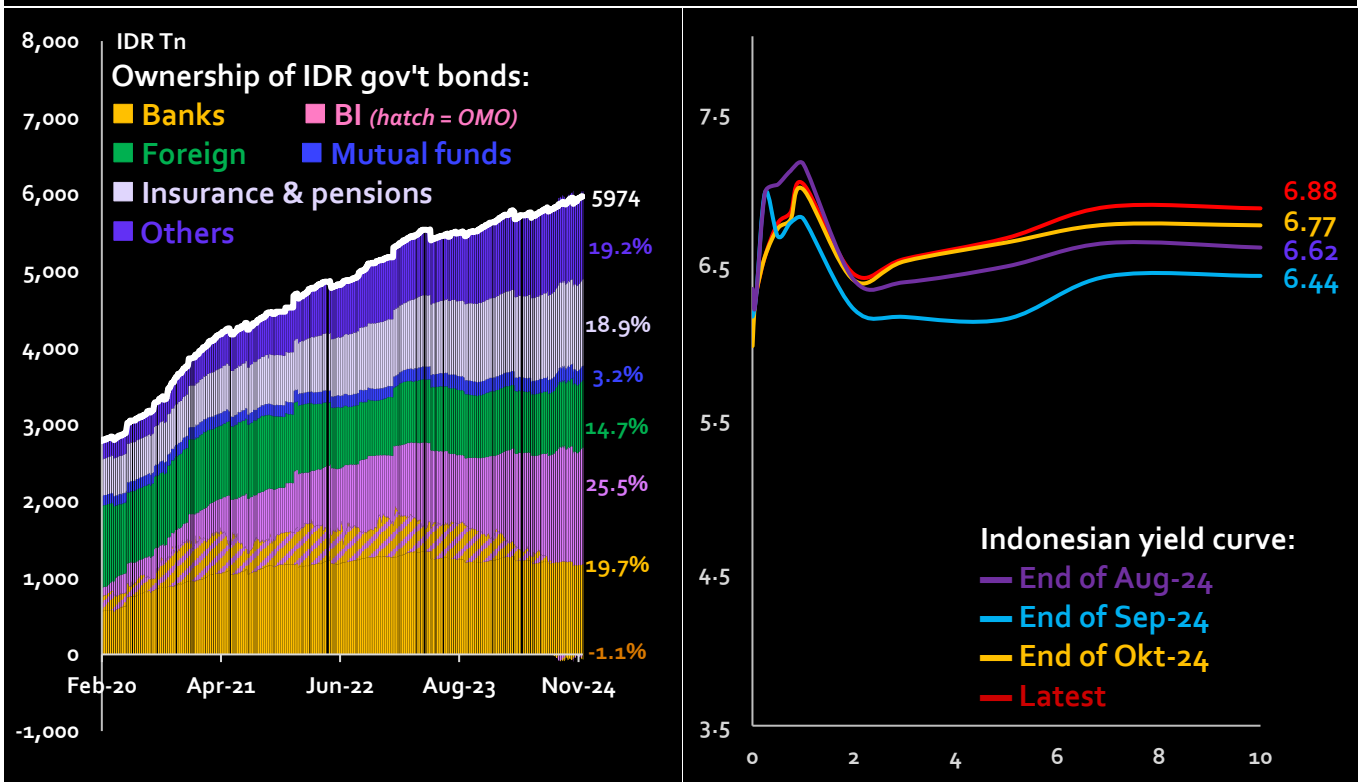
- So far, BI has weathered the “Trump trade” storm as well as it could. The Rupiah’s 4.1% depreciation against the USD since Oct 1st compares favourably with most other currencies, thanks largely BI’s now well-tested playbook of FX intervention and SRBI. BI is again issuing large amounts of SRBI thus far in November (IDR 70 Tn), to attract more foreign inflows but also to offset the large amount of maturing SRBI in the month (IDR 96 Tn). Yields on 12M SRBI has also risen by about 25 bps (to 7.07%) since late September.
- Given these changes, our previous baseline—with the Fed’s terminal rate at 3.50% and BI Rate at 4.50%—is no longer tenable, and instead we may be looking at, respectively, 4.00% and 5.00% instead. We cannot disregard the chances of deeper cuts, driven quite possibly by fiscal dominance in the US, but the timeline for these may be shifted further to late 2025 or even 2026—in time with potential post-tariff deals, the end of Jerome Powell’s tenure, and mid-term elections.
- As before, BI continues its balancing act between a more conservative rate policy and more dovish macroprudential ones. But the room for macroprudential actions is getting very small indeed, and consequently its latest move—extending the policies on minimum credit card loan payments and late fees—looks like tinkering at the margins.
- The main bottleneck for Indonesian growth remains liquidity, as banks have generally seen much faster loan growth than deposit growth, while the government has had to dip into its excess fund placements at BI this year. Given the issues with global liquidity, then, “creative” financing strategies by the government—like the Danantara SWF or even a third round of tax amnesty—may well be the main option left to unlock faster growth next year.

Panel 1. SRBI net issuance continues while Rupiah depreciates



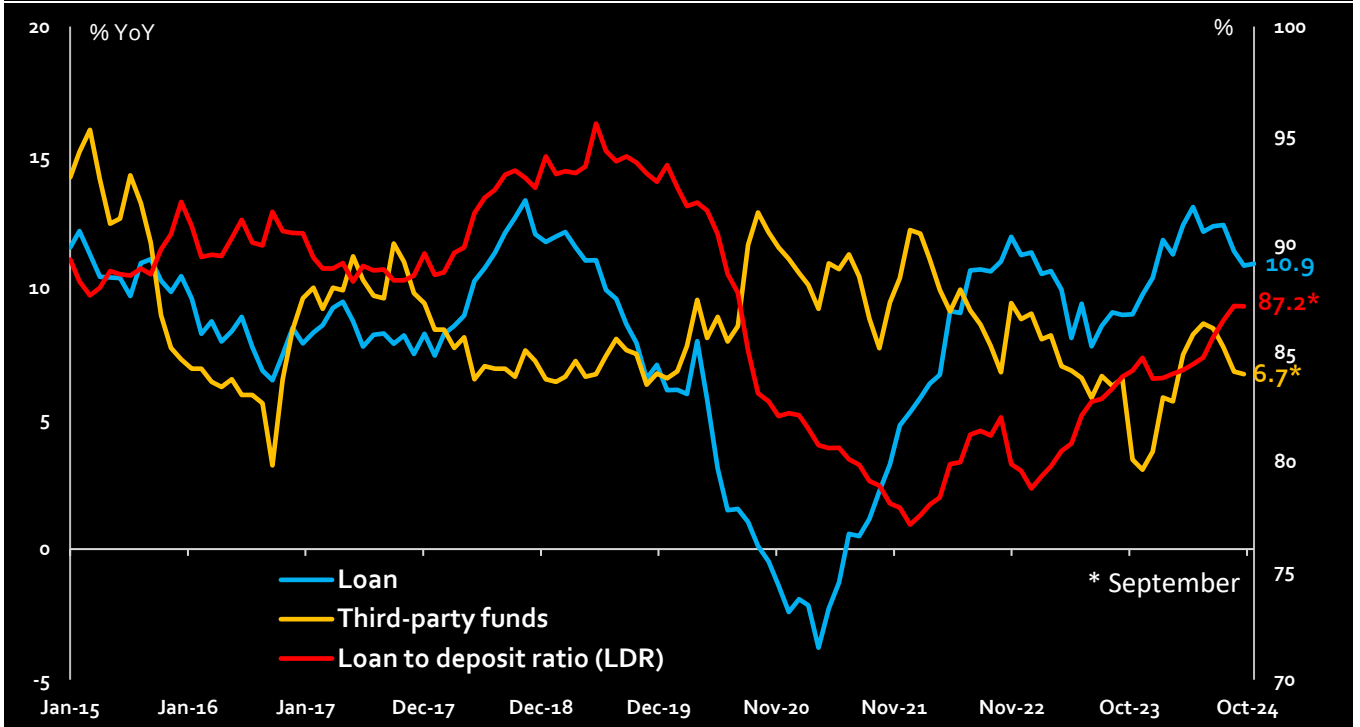
Source: BI, Bloomberg, BCA Economist

Panel 2. Indo yield curve goes up following hawkish fed rate expectations



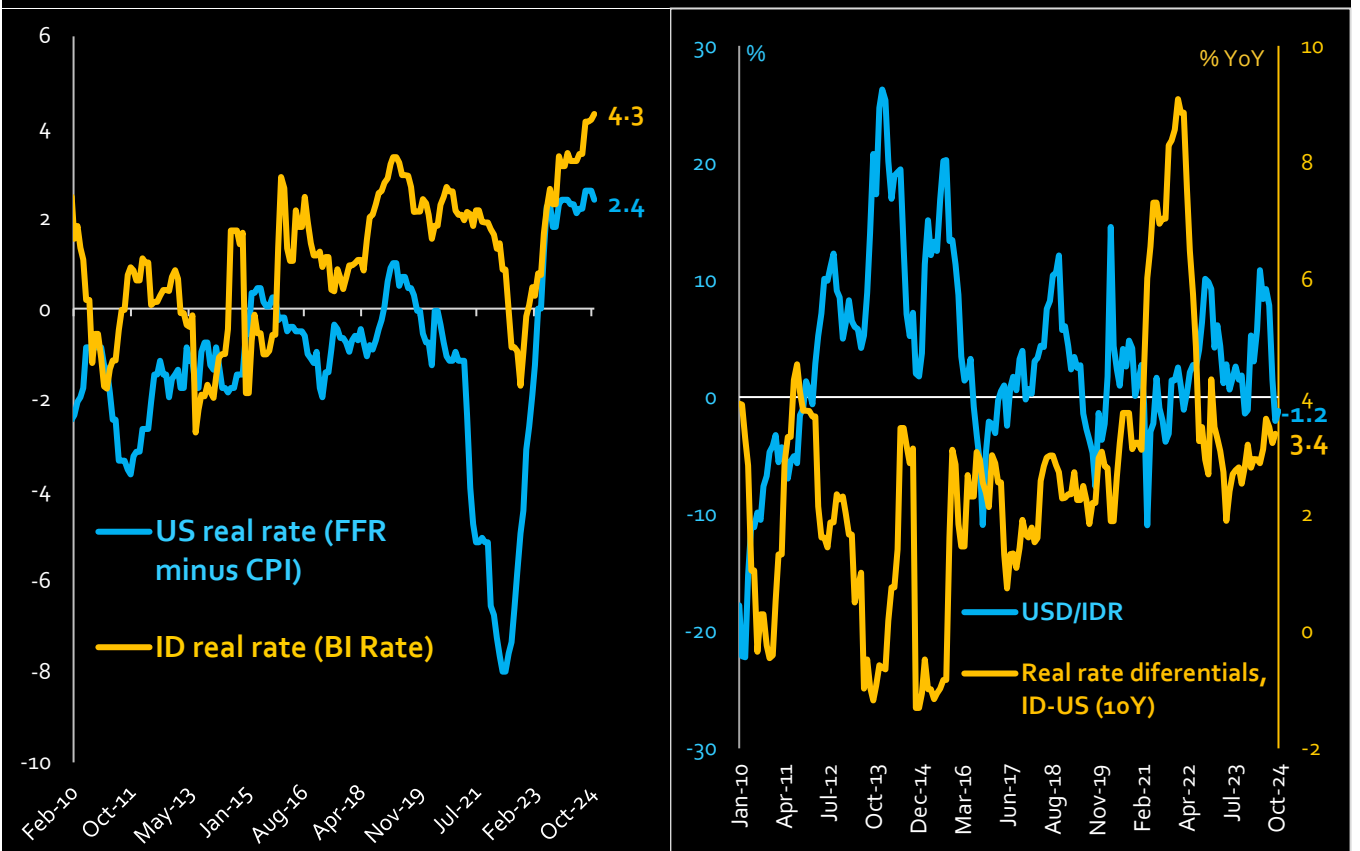
Source: MoF, BI, Bloomberg, BCA Economist

Panel 3. Loans to deposit ratio climbs up even as loans slow down



Source: MoF, Bloomberg, BCA Economist

Panel 4. Rupiah depreciates even as real rate differentials widen



Source: BI, Bloomberg, BCA Economist

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	20-Nov	-1 mth	Chg (%)
US	4.75	Nov-24	2.15	Baltic Dry Index	1,616.0	1,576.0	2.5
UK	4.75	Nov-24	2.45	S&P GSCI Index	539.3	532.0	1.4
EU	3.40	Oct-24	1.40	Oil (Brent, \$/bbl)	72.8	73.1	-0.3
Japan	0.25	Jul-24	-2.60	Coal (\$/MT)	143.7	149.5	-3.8
China (lending)	2.00	Sep-24	4.05	Gas (\$/MMBtu)	2.32	1.82	27.5
Korea	3.25	Oct-24	1.95	Gold (\$/oz.)	2,650.6	2,721.5	-2.6
India	6.50	Feb-23	0.29	Copper (\$/MT)	8,968.0	9,503.0	-5.6
Indonesia	6.00	Sep-24	4.29	Nickel (\$/MT)	15,666.8	16,643.5	-5.9
Money Mkt Rates	20-Nov	-1 mth	Chg (bps)	CPO (\$/MT)	1,125.3	1,017.9	10.6
SPN (1Y)	6.64	6.57	6.7	Rubber (\$/kg)	1.95	2.02	-3.5
SUN (10Y)	6.88	6.64	23.6	External Sector	Oct	Sep	Chg (%)
INDONIA (O/N, Rp)	6.20	6.13	7.4	Export (\$ bn)	24.41	22.06	10.69
JIBOR 1M (Rp)	6.62	6.64	-1.1	Import (\$ bn)	21.94	18.82	16.54
Bank Rates (Rp)	Aug	Jul	Chg (bps)	Trade bal. (\$ bn)	2.48	3.23	-23.39
Lending (WC)	8.78	8.81	-2.51	Central bank reserves (\$ bn)*	151.2	149.9	0.87
Deposit 1M	4.79	4.78	1.00	Prompt Indicators	Oct	Sep	Aug
Savings	0.65	0.65	-0.09	Consumer confidence index (CCI)	121.1	123.5	124.4
Currency/USD	20-Nov	-1 mth	Chg (%)	Car sales (%YoY)	-3.9	-9.1	-14.2
UK Pound	0.790	0.766	-3.06	Motorcycle sales (%YoY)	5.4	3.7	7.4
Euro	0.948	0.920	-2.97	Manufacturing PMI	Oct	Sep	Chg (bps)
Japanese Yen	155.4	149.5	-3.80	USA	48.5	47.3	120
Chinese RMB	7.246	7.102	-1.98	Eurozone	46.0	45.0	100
Indonesia Rupiah	15,865	15,465	-2.52	Japan	49.2	49.7	-50
Capital Mkt	20-Nov	-1 mth	Chg (%)	China	50.3	49.3	100
JCI	7,180.3	7,760.1	-7.47	Korea	48.3	48.3	0
DJIA	43,408.5	43,275.9	0.31	Indonesia	49.2	49.2	0
FTSE	8,085.1	8,358.3	-3.27				
Nikkei 225	38,352.3	38,981.8	-1.61				
Hang Seng	19,705.0	20,804.1	-5.28				
Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)				
Stock	3,573.9	3,558.2	15.66				
Govt. Bond	885.6	870.6	14.98				
Corp. Bond	6.9	6.9	-0.07				

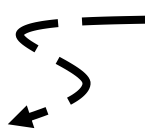
Source: Bloomberg, BI, BPS

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	2023	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.9
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.75
USD/IDR Exchange Rate (end of the year)*	13,866	14,050	14,262	15,568	15,397	15,947
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	29.3
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.7

*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

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

Nicholas Husni

Economist / Analyst

nicholas_husni@bca.co.id

+6221 2358 8000 Ext: 1079839

Agus Salim Hardjodino

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: 1007431

Samuel Theophilus Artha

Economist / Analyst

samuel_artha@bca.co.id

+6221 2358 8000 Ext: 1080373

Barra Kukuh Mamia

Head of Macroeconomic Research

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: 1020451 or fax to: (62-21) 2358 8343 or email: eri_tristanto@bca.co.id