

## BI Policy:

# Temporary respite amid lingering threats

Keely Julia Hasim  
Economist/Analyst

Barra Kukuh Mamia  
Senior Economist

27 May 2024

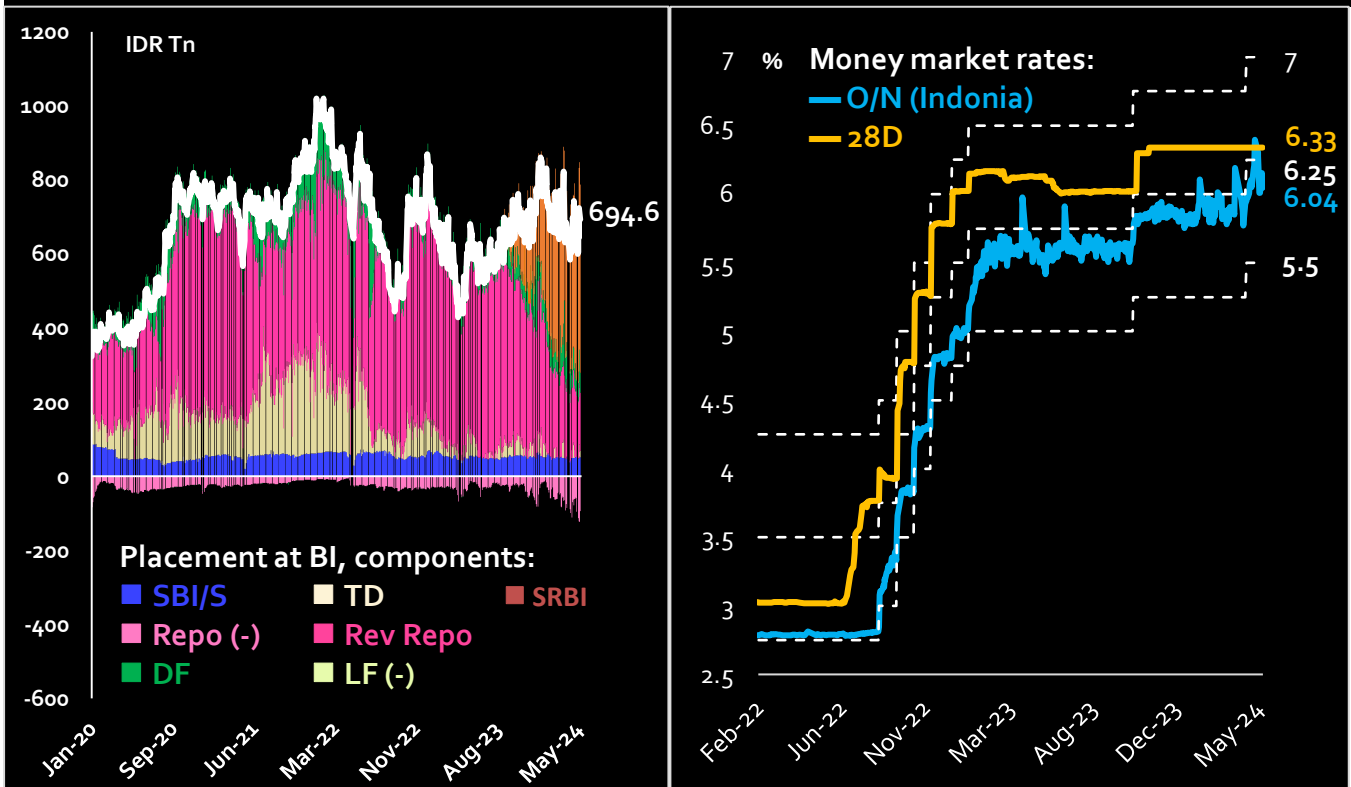
### Executive Summary

- BI has kept the BI7DRR at 6.25% in its latest meeting, following the modest recovery of Rupiah throughout the month.
  - Risks of IDR depreciation is still lurking, but BI is unlikely to raise rates to pre-empt such eventualities, given the expected slowdown in GDP growth in the coming months.
  - Domestic liquidity appears to be improving due to the recovery in exports and increased government spending in the beginning of the year.
  - A future rate hike of around 25 – 50 basis points is not out of the question, given the frequent shifts in global rate expectations.
- Bank Indonesia (BI) decided to keep its benchmark policy rate (BI7DRR) at 6.25% in its latest meeting, aligning with analysts' expectations. This decision follows a modest recovery of the Rupiah throughout the month, with the currency slightly below the psychological threshold of 16,000 to the US Dollar just before the meeting.
  - Interestingly, currencies of other emerging markets (EMs) also recovered in May, suggesting that the Rupiah's recovery is largely due to easing external conditions. US inflation fell slightly to 3.4% YoY in April, leading to a brief decline in Fed funds futures. However, it is unlikely that US inflation will decrease dramatically in the near future, given that commodity prices remain high.
  - As a result, the risk of IDR depreciation is still lurking, ready to be activated by some US data or geopolitical shock. The anticipated wider current account deficit in Q2-24, due to ongoing dividend repatriation and higher services imports, could also put additional pressure on the Rupiah. However, BI is unlikely to raise rates to pre-empt such risks, given the expected slowdown in GDP growth in the coming months.
  - On the other hand, domestic liquidity conditions appear to be improving despite the uncertain global environment, with deposit growth reaching 8.21% YoY in Apr-24. This improvement can be attributed to a recovery in exports driven by the metals sector and increased government spending earlier in the year. Continued expansion in China's manufacturing sector has also supported demand for coal and some industrial minerals, but Indonesia's terms of trade, although improved, remains below its 2021-22 heyday, meaning that the CA is necessarily in deficit if we are to grow around 5%.
  - BI's issuance of SRBI has successfully attracted foreign liquidity, resulting in an increase in foreign ownership of SRBI rising from Rp 71.6 Tn (18.2% of total outstanding) as of April 23, 2024, to Rp 142.9 Tn (28.1% of total outstanding) as of May 21, 2024. However, there is a

concern that SRBI is competing with government bonds (SBN) for domestic and foreign funds, given the higher yields and shorter tenor it offers. While this concern is currently mitigated by the government's substantial excess budget balance (SAL), it could become more significant challenge if the government's borrowing needs increase in the future.

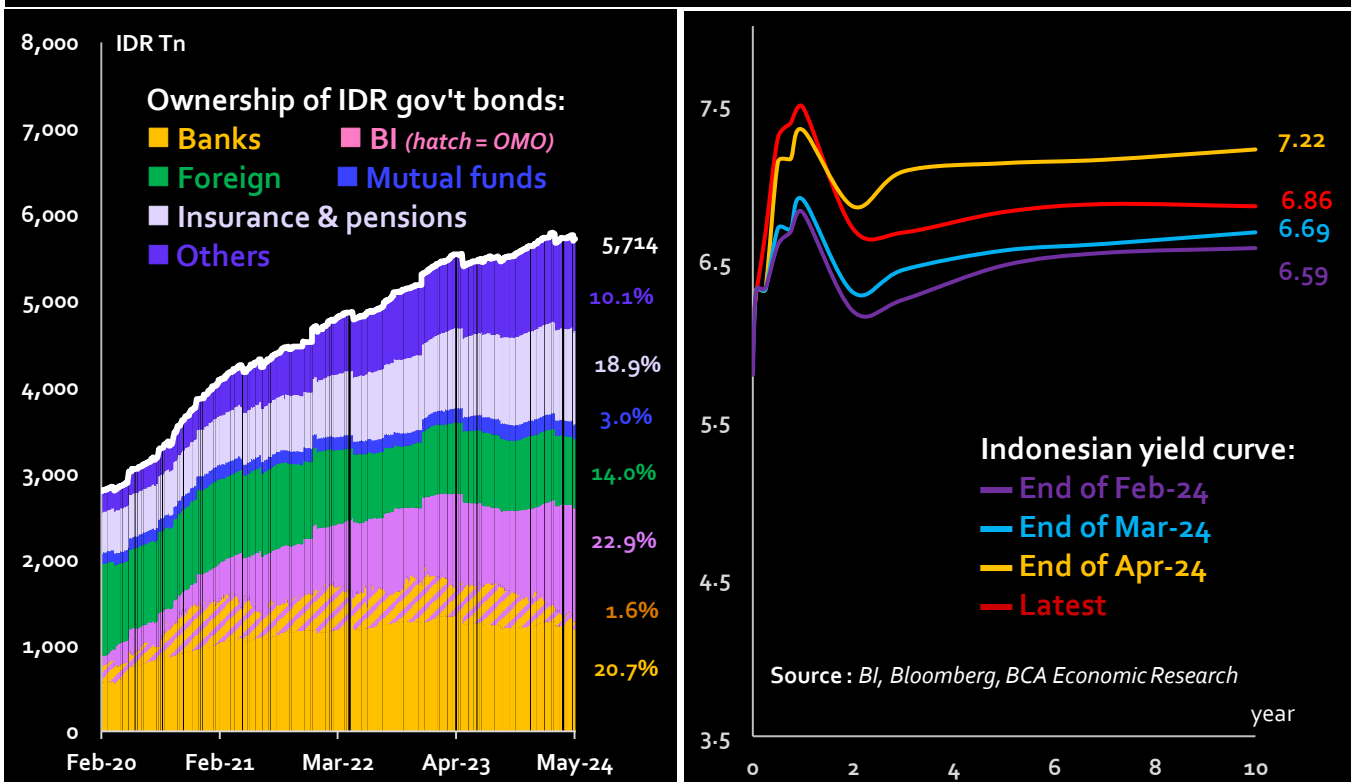
- While BI has emphasized that maintaining a stable Rupiah is a top priority, BI is likely to be less reactive to signs of IDR weakening due to more pressing growth concerns at home. A slightly weaker Rupiah could also theoretically help boost growth by making Indonesian goods more attractive in the global market while curtailing domestic import demand. However, a future rate hike of around 25 – 50 basis points is not out of the question, given the frequent shifts in global rate expectations.

**Panel 1. Domestic banks' placement in BI is increasingly skewed towards SRBI.**



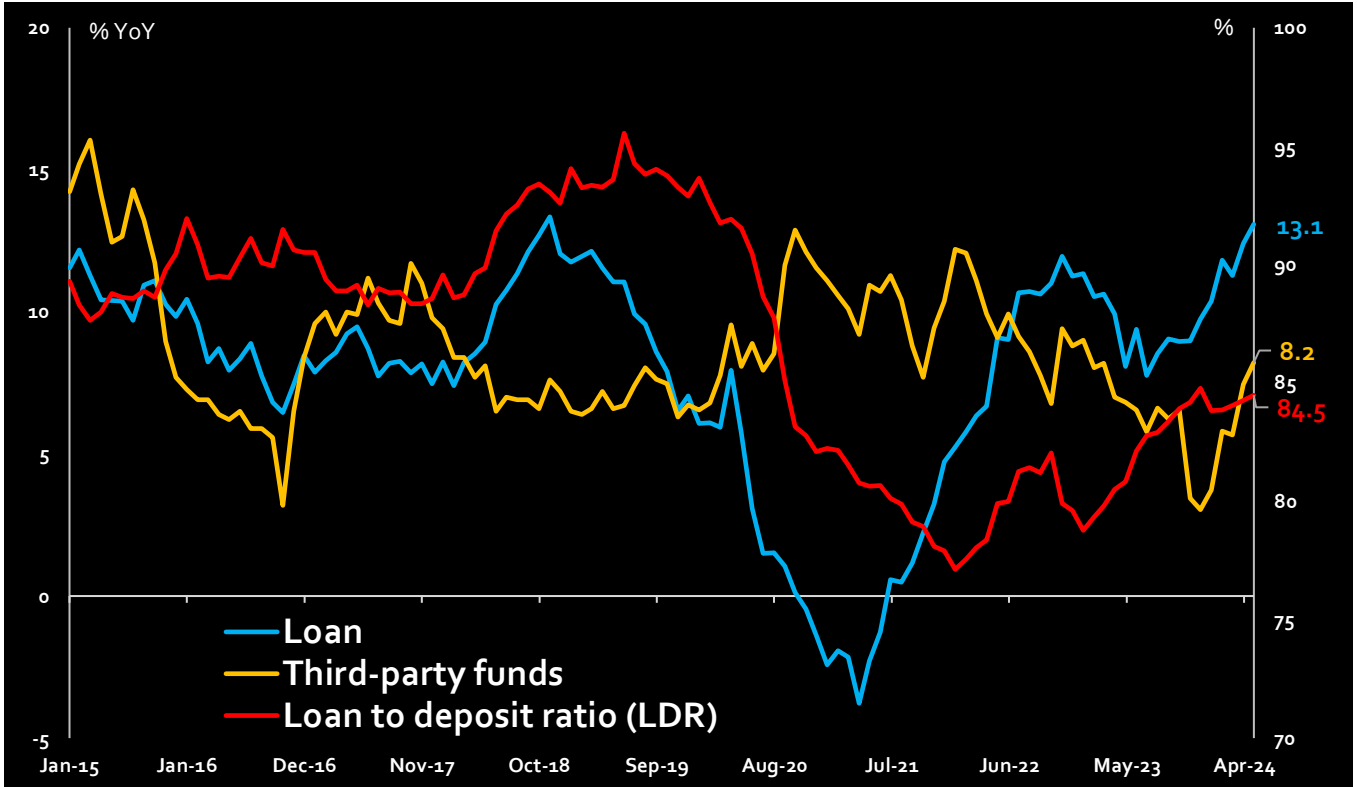
Source: BI, Bloomberg, BCA Economist

**Panel 2. The benchmark SBN yield slightly declined, thanks to BI's increasing presence in the SBN market.**



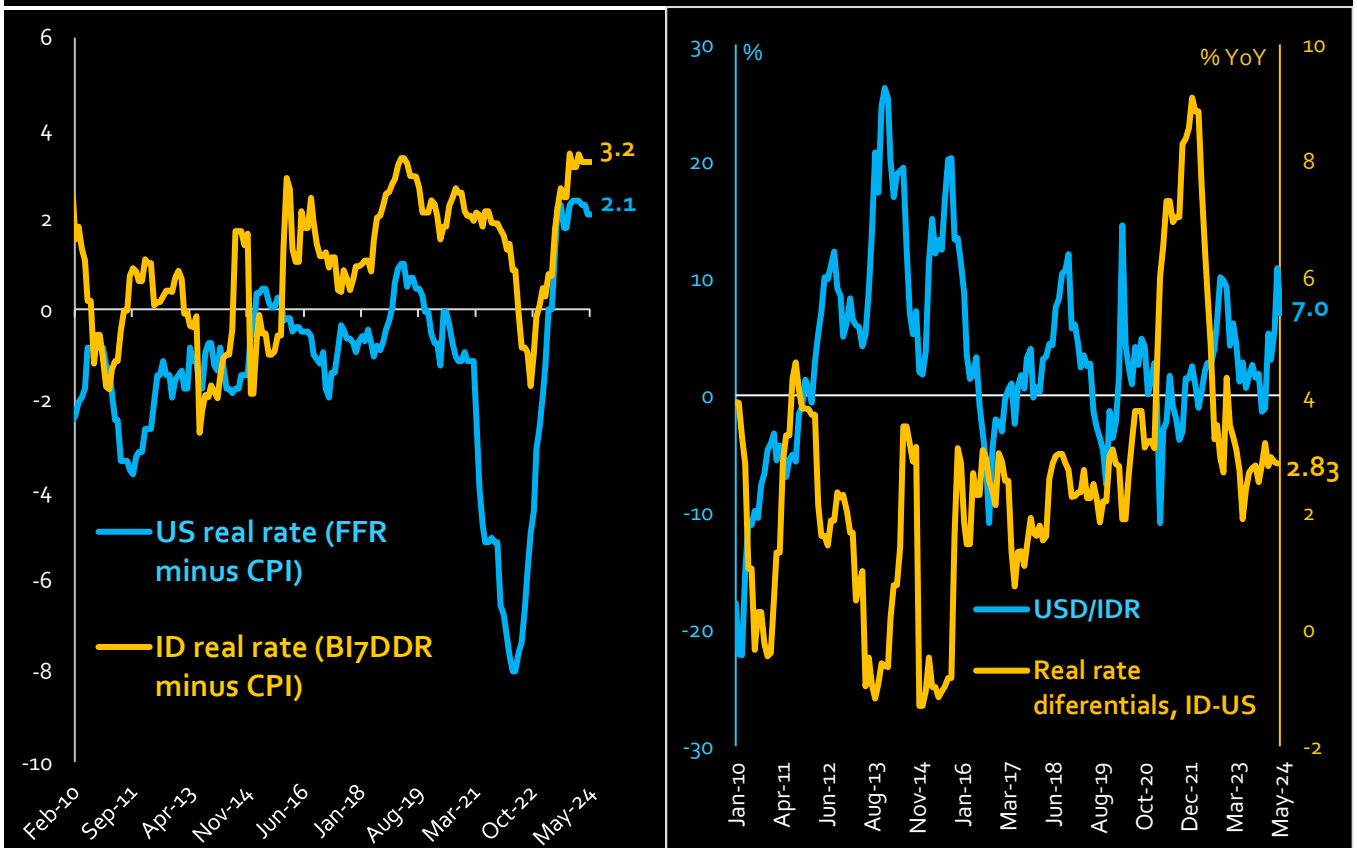
Source: MoF, BI, Bloomberg, BCA Economist

**Panel 3. Deposit growth continues to show increasing improvement.**



Source: MoF, Bloomberg, BCA Economist

**Panel 4. The slight narrowing of the real rate differential between Indonesia and the US can be attributed to the slight decline in US inflation in Apr-24.**



Source: BI, Bloomberg, BCA Economist

## Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	22-May	- 1 mth	Chg (%)
US	5.50	Jul-23	2.10	Baltic Dry Index	1,804.0	1,919.0	-6.0
UK	5.25	Aug-23	2.95	S&P GSCI Index	583.2	590.3	-1.2
EU	4.50	Jul-23	2.10	Oil (Brent, \$/bbl)	81.9	87.3	-6.2
Japan	-0.10	Jan-16	-2.60	Coal (\$/MT)	143.0	146.3	-2.3
China (lending)	2.50	Aug-23	4.05	Gas (\$/MMBtu)	2.51	1.43	75.5
Korea	3.50	Jan-23	0.60	Gold (\$/oz.)	2,378.9	2,391.9	-0.5
India	6.50	Feb-23	1.67	Copper (\$/MT)	10,295.2	9,797.2	5.1
Indonesia	6.25	Apr-24	3.25	Nickel (\$/MT)	20,101.0	19,161.2	4.9
Money Mkt Rates	22-May	- 1 mth	Chg (bps)	CPO (\$/MT)	836.0	857.0	-2.4
				Rubber (\$/kg)	1.69	1.61	5.0
SPN (1M)	5.88	5.80	7.6	External Sector	Apr	Mar	Chg (%)
SUN (10Y)	6.86	6.98	-12.2				
INDONIA (O/N, Rp)	6.11	5.77	34.1	Export (\$ bn)	19.62	22.54	-12.97
JIBOR 1M (Rp)	6.90	6.65	25.0	Import (\$ bn)	16.07	17.96	-10.55
Bank Rates (Rp)	Feb	Jan	Chg (bps)	Trade bal. (\$ bn)	3.55	4.58	-22.46
				Central bank reserves (\$ bn)*	136.2	140.4	-2.98
Lending (WC)	8.84	8.87	-3.03				
Deposit 1M	4.62	4.68	-5.80	Prompt Indicators	Apr	Mar	Feb
Savings	0.67	0.68	-0.11				
Currency/USD	22-May	- 1 mth	Chg (%)	Consumer confidence index (CCI)	127.7	123.8	123.1
UK Pound	0.786	0.808	2.81				
Euro	0.924	0.938	1.57	Car sales (%YoY)	-17.5	-26.2	-18.8
Japanese Yen	156.8	154.6	-1.38				
Chinese RMB	7.241	7.239	-0.03	Motorcycle sales (%YoY)	18.3	-7.8	-2.9
Indonesia Rupiah	15,993	16,255	1.64				
Capital Mkt	22-May	- 1 mth	Chg (%)	Manufacturing PMI	Apr	Mar	Chg (bps)
JCI	7,222.4	7,087.3	1.91	USA	50.0	51.9	-190
DJIA	39,671.0	37,986.4	4.43	Eurozone	45.7	46.1	-40
FTSE	8,370.3	7,895.9	6.01	Japan	49.6	48.2	140
Nikkei 225	38,617.1	37,068.4	4.18	China	51.4	51.1	30
Hang Seng	19,195.6	16,224.1	18.32	Korea	49.4	49.8	-40
Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)	Indonesia	52.9	54.2	-130
Stock	3,294.9	3,226.6	68.31				
Govt. Bond	791.0	810.7	-19.68				
Corp. Bond	8.4	9.4	-0.97				

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](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	3.2
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.50
USD/IDR Exchange Rate (end of the year)*	13,866	14,050	14,262	15,568	15,397	16,119
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

**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

**Aldi Rizaldi**

*Research Assistant*

aldi\_yanto@bca.co.id

+6221 2358 8000 Ext: 1020451

**Agus Salim Hardjodinoto**

*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

**Fikri Adam Zaqi**

*Research Assistant*

Fikri\_zaqi@bca.co.id

+6221 2358 8000 Ext: 20378

**Barra Kukuh Mamia**

*Senior Economist*

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

**Thieris Nora Kusuma**

*Economist / Analyst*

thieris\_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

### PT Bank Central Asia Tbk

#### Economic, Banking & Industry Research of BCA Group

20<sup>th</sup> 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: [aldi\\_yanto@bca.co.id](mailto:aldi_yanto@bca.co.id)