

PIER Snapshot: Aug-24 BI-Rate

21 August 2024

Indicators	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Mar-24	Jun-24	Jul-24	Aug-24
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	6.25	6.25	6.25
Deposit Facility Rate (%)	4.25	3.00	2.75	4.75	5.25	5.25	5.50	5.50	5.50
Inflation Rate (%yoy)	2.72	1.68	1.87	5.51	2.81	3.05	2.51	2.13	
Core Inflation Rate (%yoy)	3.02	1.60	1.56	3.36	1.82	1.77	1.90	1.95	

Bank Indonesia Left BI-Rate Unchanged, Signaling Potential Rate Cut in 4Q24

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- **Bank Indonesia (BI) continued adopting a cautious approach to monetary policy, opting to keep the policy rate unchanged.**

BI adjusted its baseline projection for the Federal Funds Rate (FFR), now anticipating a 25bps rate cut in Sep-24 and an additional 25bps rate cut in either Nov-24 or Dec-24, up from the previously expected single 25bps rate cut in Nov-24. Additionally, BI forecasts a further 75bps rate cut in 2025. BI remains cautious, focusing on the uncertainty surrounding the timing of the FFR cuts, the trend in US Treasury yield spreads, and the trajectory of the US Dollar Index.

BI held the BI-Rate steady at 6.25% in the Aug-24 meeting to address global uncertainties and preserve Rupiah stability. Although the Rupiah has appreciated significantly in recent weeks, BI argued that the currency remains undervalued, thereby justifying the decision to delay a rate cut until further stabilization is achieved. BI also reaffirmed that the timing for a potential BI-Rate cut remains targeted for 4Q24, consistent with the stance taken in the previous meeting. BI's statement indicated that it would continue to wait for clearer signals regarding the Fed's policy rate cut trajectory before initiating BI-Rate reductions.

- **Recent developments in Indonesia's banking sector.**

Loan growth experienced a moderate increase in Jul-24, rising to 12.40%yoy from 12.36%yoy in Jun-24. Investment and consumer loan growth accelerated to 15.20%yoy and 10.98%yoy, respectively, up from 15.09%yoy and 10.80%yoy in the previous month. Conversely, growth in working capital loans eased slightly to 11.60%yoy in Jul-24 from 11.68%yoy in Jun-24. MSME loan growth continued its downtrend, registering a 5.16%yoy increase compared to 5.68%yoy in Jun-24. Third-Party Funds (TPF) growth slowed to 7.77%yoy from 8.45%yoy. As of Jun-24, the Non-Performing Loan (NPL) ratio was 2.26% (gross), and the Capital Adequacy Ratio (CAR) stood at 26.09%.

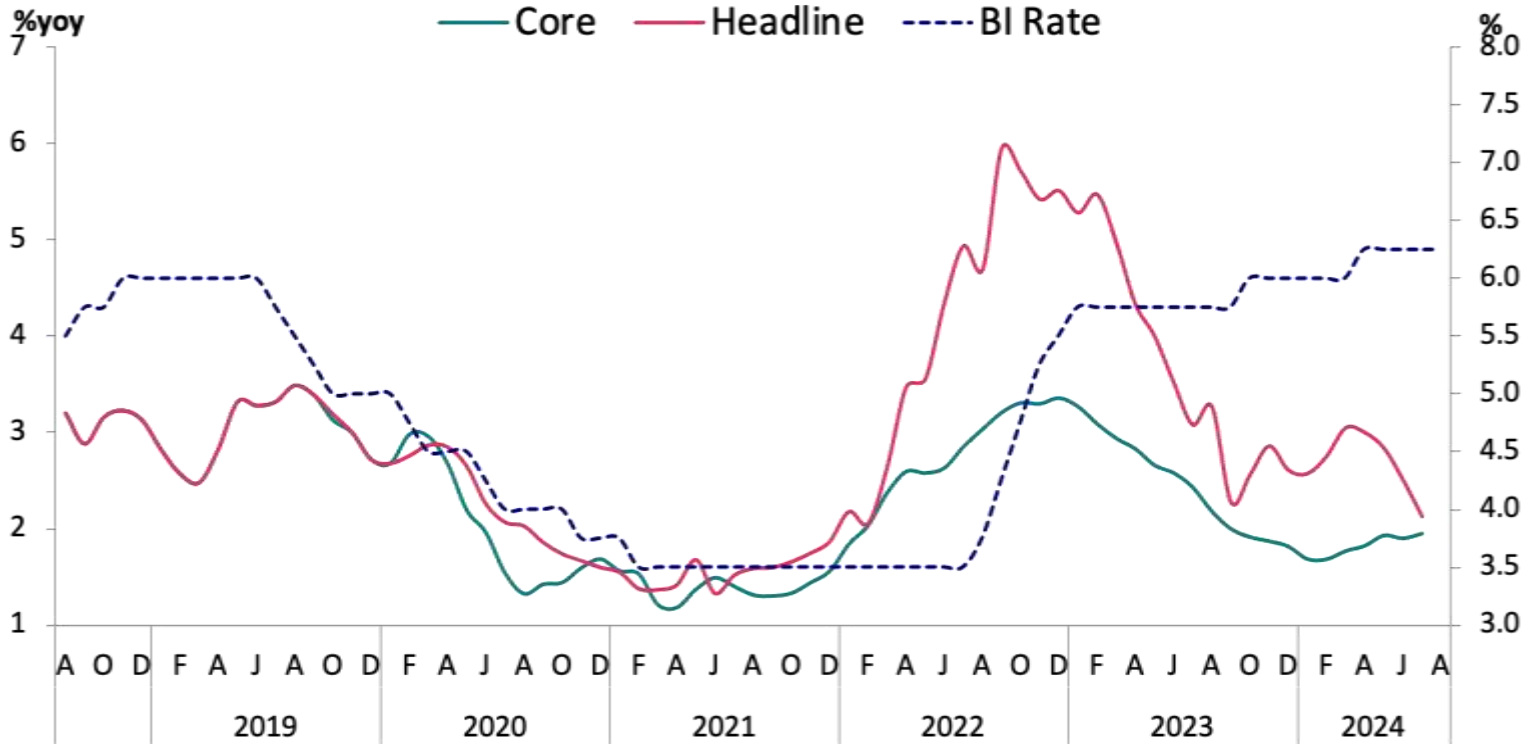
- **Our PIERspectives on BI's monetary policy.**

Based on the anticipated foreign capital inflows, maintained inflation trends, and Rupiah stability, we project that BI will reduce BI-rate by 50bps in 2024 and by 75bps in 2025, reaching 5.75% and 5.00%, correspondingly. Inflationary pressures have eased due to price normalization, particularly for foods, with manageable upward risks into 2025 (increase in Value-Added Tax (VAT) rates and the imposition of new excise duties). Given the current market expectation on FFR cuts and the attractiveness of emerging markets, foreign investors are expected to shift their assets towards these markets, including Indonesia amid its economic resilience. Hence, we estimate the Rupiah will appreciate to between 14,900 – 15,300 per USD by the end of 2025, compared to our end-of-2024 forecast of approximately 15,500 – 15,900 per USD, largely driven by inflows from foreign direct and portfolio investments.

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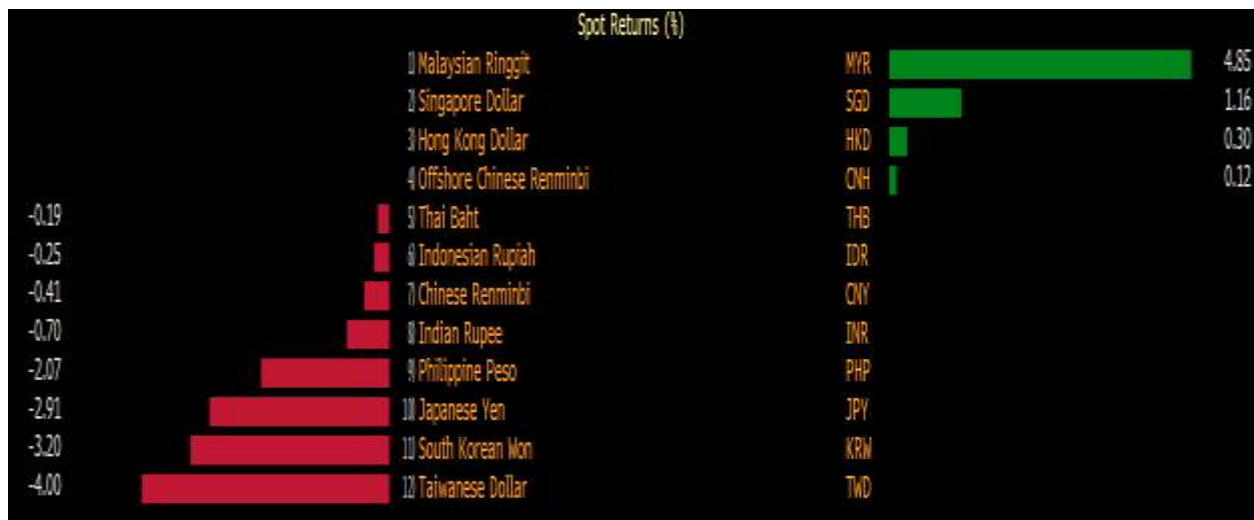
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BI-Rate and Inflation (%)



Source: Statistic Indonesia & PIER

YtD Comparison of Asian Currencies

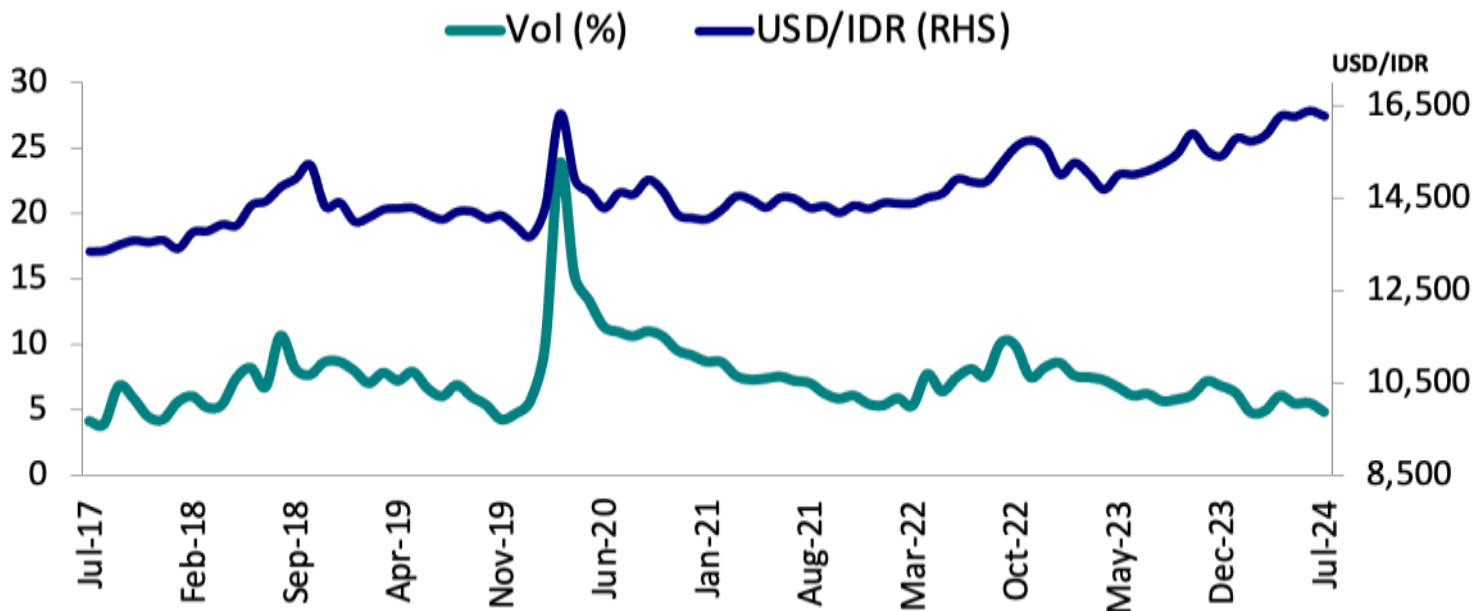


Source: Bloomberg

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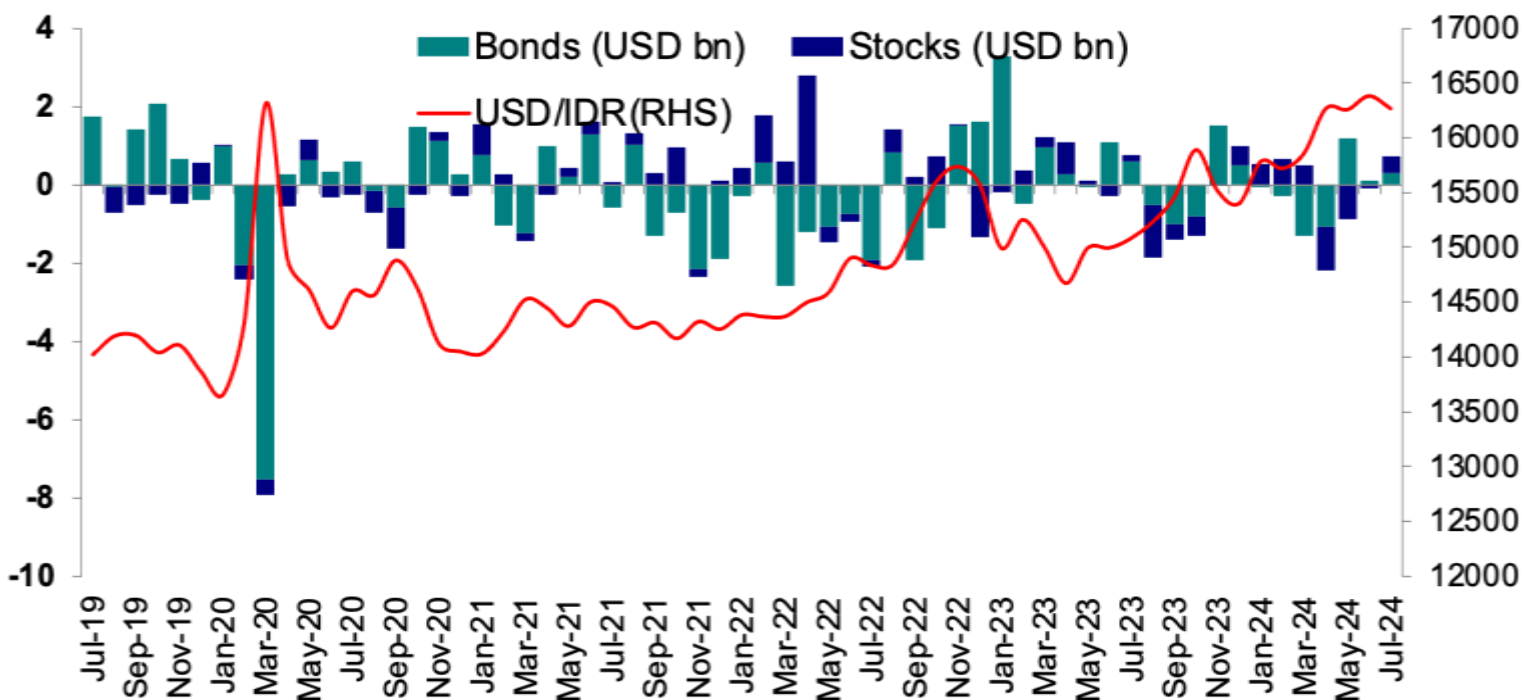
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USD/IDR and Volatility



Source: Bloomberg & PIER

Foreign Flows in Indonesia's Capital Market (USD mn)



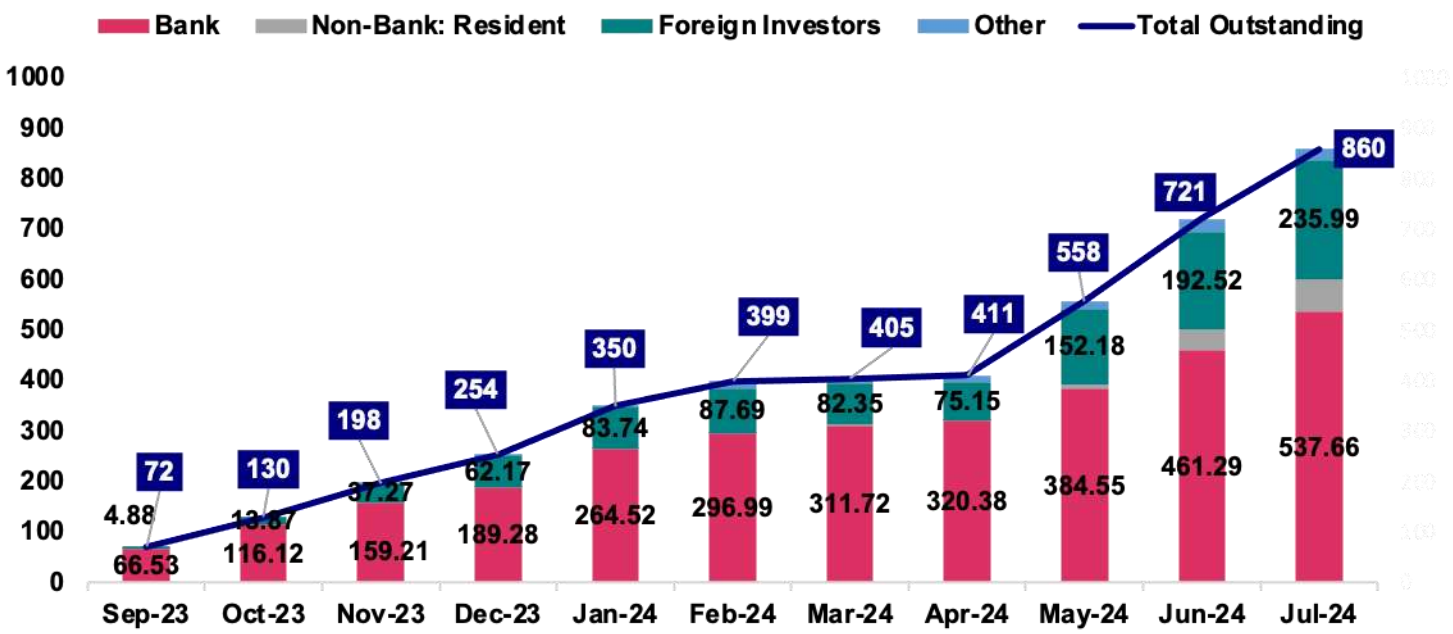
Source: Bloomberg & PIER

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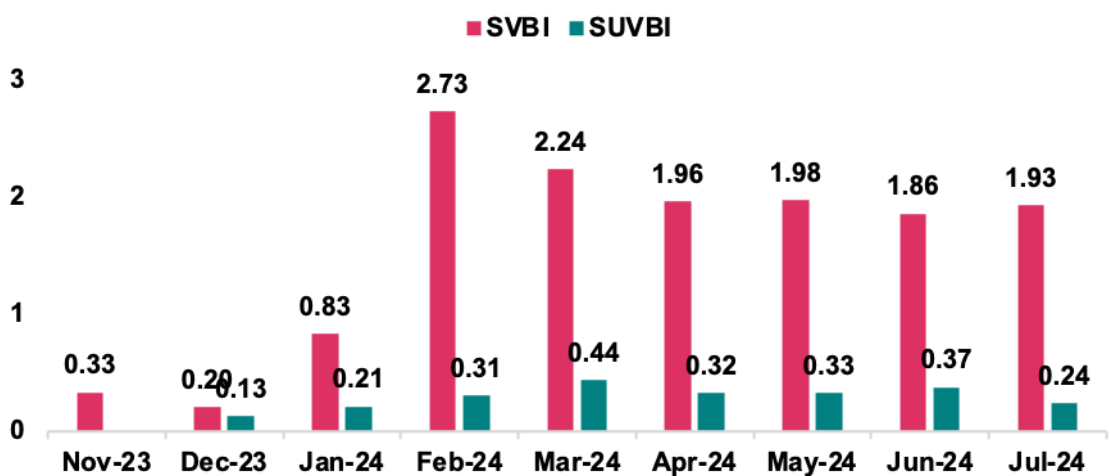
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SRBI, SVBI, and SUVBI

Ownership of SRBI (IDR tn)



Outstanding of SVBI and SUVBI (USD bn)



Source: Bank Indonesia & PIER

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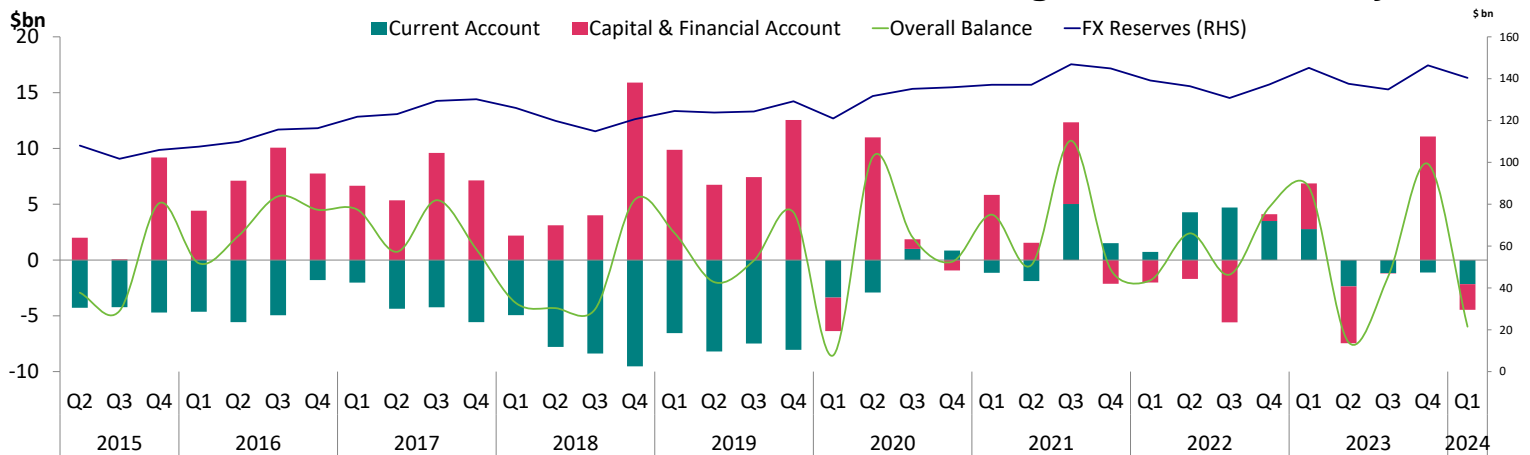
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The Trade Surplus has Dropped to its Lowest Level since May 2023 due to a Surprising Import Rebound

(in \$mn)	Exports			Imports			Trade Balance		
	TOTAL	Non Oil&Gas Export	Oil&Gas Export	TOTAL	Non Oil&Gas Import	Oil&Gas Import	TOTAL	Non Oil&Gas Balance	Oil&Gas Balance
FY2018	180,013	162,841	17,172	188,711	158,842	29,869	-8,699	3,999	-12,697
FY2019	167,683	155,894	11,789	171,276	149,390	21,885	-3,593	6,503	-10,096
FY2020	163,192	154,941	8,251	141,569	127,312	14,257	21,623	27,629	-6,006
FY2021	231,609	219,362	12,248	196,190	170,661	25,529	35,420	48,701	-13,282
FY2021	231,609	219,362	12,248	196,190	170,661	25,529	35,420	48,701	-13,282
FY2022	291,904	275,906	15,998	237,447	197,031	40,416	54,457	78,875	-24,418
FY2023	258,794	242,871	15,923	221,886	186,056	35,830	36,908	56,816	-19,908
Jan-24	20,493	19,096	1,398	18,495	15,796	2,698	1,999	3,299	-1,301
Feb-24	19,273	18,056	1,217	18,440	15,461	2,980	833	2,595	-1,763
Mar-24	22,538	21,253	1,285	17,961	14,635	3,327	4,577	6,618	-2,041
Apr-24	19,615	18,265	1,350	16,896	13,911	2,984	2,719	4,354	-1,634
May-24	22,326	20,906	1,419	19,400	16,651	2,748	2,926	4,255	-1,329
Jun-24	20,845	19,614	1,231	18,450	15,180	3,271	2,395	4,434	-2,039
Jul-24	22,210	20,787	1,423	21,738	18,180	3,558	472	2,607	-2,135
Jan-Jul-23	149,501	140,435	9,066	128,298	108,526	19,772	21,214	31,920	-10,706
Jan-Jul-24	147,299	137,976	9,323	131,379	109,814	21,565	15,920	28,162	-12,242
Growth	-1.5	-1.8	2.8	2.4	1.2	9.1			

Source: Statistics of Indonesia & PIER

1Q24 Current Account Deficit Widened Amid Rising Global Uncertainty



Source: Bank Indonesia & PIER

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PIER's Economic & Market Forecast

	2019	2020	2021	2022	2023	1Q24	2Q24F	3Q24F	4Q24F	2024F	2025F	2026F
National Account												
Real GDP (% yoy)	5.02	-2.07	3.70	5.31	5.05	5.11	5.05	5.02	5.00	5.04	5.15	5.26
Real Consumption: Private (% yoy)	5.04	-2.63	2.02	4.93	4.82	4.91	4.93	4.88	5.00	4.93	5.12	5.12
Real Consumption: Government (% yoy)	3.27	2.12	4.24	-4.51	2.95	19.90	1.42	4.81	5.05	6.71	5.37	6.08
Real Gross Fixed Capital Formation (% yoy)	4.45	-4.96	3.80	3.87	4.40	3.79	4.43	3.79	4.89	4.23	5.83	6.62
Real Export (% yoy)	-0.48	-8.42	17.95	16.28	1.32	1.37	8.28	1.27	4.95	3.92	9.61	10.40
Real Import (% yoy)	-7.13	-17.60	24.87	14.75	-1.65	1.94	8.57	2.88	6.36	4.92	11.80	12.62
Nominal GDP (IDR tn) - nominal	15,832.66	15,443.35	16,976.75	19,588.09	20,892.38	5,288.49	5,536.50	5,680.74	5,691.22	22,196.94	23,974.55	25,920.27
Nominal GDP (USD bn) - nominal	1,119.10	1,059.93	1,186.29	1,318.68	1,371.47	337.72	342.37	350.45	356.58	1,387.11	1,547.89	1,733.00
Inflation & Unemployment												
Headline Inflation Rate (2022=100, % yoy, avg)	2.82	2.04	1.56	4.14	3.73	2.79	2.78	2.21	2.28	2.52	2.81	2.85
Headline Inflation Rate (2022=100, % yoy, eop)	2.59	1.68	1.87	5.41	2.81	3.05	2.51	2.27	2.33	2.33	3.12	2.91
Unemployment Rate (%)	5.18	7.07	6.49	5.86	5.32	4.82	4.82	4.94	4.94	4.94	5.03	4.93
Fiscal Condition												
Fiscal Balance (% of GDP)	-2.20	-6.14	-4.57	-2.35	-1.65	0.04	-0.34	-1.26	-2.63	-2.63	-2.67	-2.86
IDR 10-year Bond Yield (%)	7.06	5.89	6.38	6.94	6.48	6.73	7.07	6.87	6.59	6.59	6.29	6.25
External Sector												
Trade Balance (USD bn)	-3.59	21.62	35.42	54.46	36.91	7.41	8.03	6.64	6.32	28.41	23.31	17.11
Goods Balance (USD bn)	3.51	28.30	43.81	62.67	46.45	9.82	10.07	8.67	8.35	36.92	31.44	25.24
Current Account (USD bn)	-30.28	-4.43	3.51	13.22	-1.88	-2.16	-2.85	-2.78	-2.76	-10.54	-18.67	-26.63
Current Account (% of GDP)	-2.71	-0.42	0.30	1.00	-0.14	-0.64	-0.83	-0.79	-0.77	-0.76	-1.21	-1.54
Foreign Reserves (USD bn)	129.18	135.90	144.91	137.23	146.38	140.39	140.18	145.12	150.45	150.45	155.10	158.95
USD/IDR (avg)	14,141	14,529	14,297	14,874	15,248	15,783	16,295	16,210	15,961	16,062	15,497	14,963
USD/IDR (eop)	13,866	14,050	14,253	15,568	15,397	15,855	16,375	16,152	15,863	15,863	15,231	14,773
Commodity Price												
Coal Price (USD/MT)	66.2	83.0	169.7	379.2	141.8	131.5	135.1	121.0	117.5	117.5	103.8	90.3
CPO Price (USD/MT)	763.7	1,016.4	1,270.3	940.4	797.8	942.9	873.7	821.7	829.6	829.6	818.0	808.3
Oil Price (USD/BBL)	65.85	49.87	74.31	80.90	77.9	85.5	82.6	79.0	80.3	80.3	84.1	85.4
Interest Rate												
Fed Funds Rate (%)	1.75	0.25	0.25	4.50	5.50	5.50	5.50	5.25	4.75	4.75	3.75	3.00
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	6.25	6.25	5.75	5.75	5.00	4.50
Average Lending Rate (%)	10.52	9.67	9.16	9.16	9.27	9.27	9.27	9.30	9.28	9.28	8.76	8.21
Banking Sector												
Loan (% yoy)	6.08	-2.40	5.24	11.35	10.38	12.40	12.36	10.69	10.79	10.79	11.34	11.78
TPF (% yoy)	6.54	11.11	12.21	9.01	3.73	7.44	8.45	8.15	10.57	10.57	9.39	9.22
LDR (%)	94.8	83.2	77.8	79.7	83.8	84.2	85.8	85.9	84.0	84.0	85.5	87.5
Real Sector												
Car Sales (Unit)	1,030,126	532,027	887,202	1,048,040	1,005,802	215,068	192,836	239,628	250,823	898,463	964,587	1,030,208
Car Sales (% yoy)	-10.5	-48.4	66.8	18.1	-4.0	-23.9	-13.9	-3.9	0.3	-10.7	7.4	6.8
Motorcycles Sales (Unit)	6,487,460	3,660,616	5,057,516	5,221,470	6,236,992	1,735,090	1,435,904	1,604,918	1,502,065	6,277,976	6,238,984	6,153,840
Motorcycles Sales (% yoy)	1.6	-43.6	38.2	3.2	19.4	-4.9	4.2	5.6	-0.9	0.7	-0.6	-1.4

Note:

: quarterly realization

Source: Permata Institute for Economic Research (PIER)

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