

Friday, 25 August 2023

Strategy

Expanding Policy Arsenal

The BI Rate has been kept unchanged at 5.75% for the seventh consecutive month, with a high probability of being maintained until year-end. BI continues to demonstrate flexibility in policy choice by adapting to the evolving market conditions, introducing SRBI, new instrument which will not only deepen the financial system but also could attract foreign flows. Given that the elevated Monetary Operations to reduce IDR volatility could risk IDR domestic liquidity, government fiscal spending acceleration is increasingly crucial to maintain growth momentum toward year-end.

Rate Policy Unchanged and Growth Outlook. Bank Indonesia (BI) kept its benchmark rate unchanged at 5.75% and with a high probability of being maintained throughout 2023. The current policy rate level is still deemed sufficient to keep inflation within the target range. BI estimates headline inflation of 2.9% (core:2.5%) this year, indicating a stable print ahead in spite of upward pressure on some commodity prices. 3Q23 GDP growth is expected to remain robust at 5.15% y-y, with a more elevated GDP growth expectation for 2024 of 4.7 – 5.5% (vs 2023's 4.5-5.3%). The Current Account Balance in FY23 is expected to stand between -0.4% and 0.4% of GDP, inline with our expectation. Loan growth improved to 8.5% in July 23, vs June's 7.76%. BI maintains 9-11% loan growth target in 2023, while expecting stronger 10-12% growth in 2024.

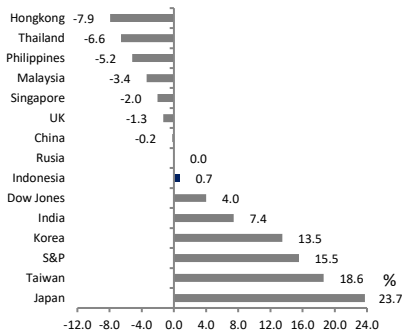
Rate Differential in Focus. Bank Indonesia (BI) had already factored in an additional 25-bps increment in Sept's FOMC as part of their fundamental baseline assumption, although BI also foresees the potential for more rate hikes beyond September. IDR risk remains the key spectre, and BI intends to concentrate on intervening in the forex market rather than making adjustments to the policy rate. We note a shift in BI's intervention, a transition from the "Triple Intervention" to focusing solely on forex intervention in the spot market and the Domestic Non-Deliverable Forward (DNDF) market, and introducing new instrument as part of its monetary operations.

New Financial Instruments. Aside from 7 new instruments prepared for the placement of export proceeds, BI introduced "Sekuritas Rupiah Bank Indonesia" (SRBI), as a new tool to control IDR supply in the system. The SRBI involves the securitization of government bonds (SBNs) held by BI and will be put up for auction to primary dealer banks with tenors of 6, 9, and 12 months, offered at discount rates. Unlike the non-tradable nature of the Reverse Repo SBN, participating banks have the option to participate in secondary market trading of the SRBIs. Such a move will not only deepen Indonesia's financial system, but also simultaneously attract foreign flows, with the implementation is scheduled to begin on September 15, 2023.

Enhanced Dollar Availability. The enactment of Regulation No. 36/2023 this month has started to bear positive results as the number of exporters using TD DHE for their export earnings has doubled. Furthermore, the flow of funds into 3-month TD DHE has surged from 40% to an impressive 80% post the regulation's implementation. BI expects that this law will lead to significant inflows of around USD 9.2 billion by December. To address the need for IDR liquidity for exporters, BI has also introduced FX Swaps, and another approach to address this, involving FX Swaps, whereby banks have increased their 3-month FX Swap commitments with Bank Indonesia recently.

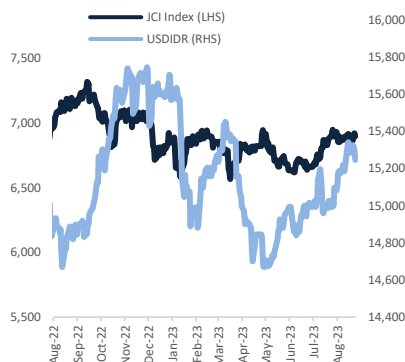
On the right track. BI continues to demonstrate flexibility in policy choice by adapting to the evolving market conditions. We anticipate these external pressures will persist at least until September, especially on the prospect of further FOMC rate hikes, which is not expected by the market. Continued elevated Monetary Operations to reduce IDR volatility could risk system liquidity, of which, the need for government fiscal spending acceleration is increasingly crucial to support growth momentum, especially with ample fiscal surplus balance.

YTD share performance (%)



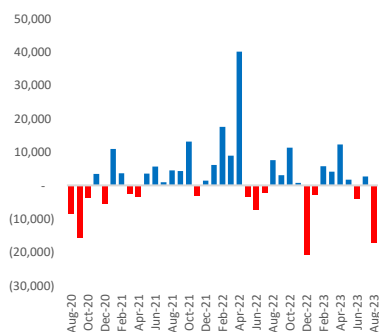
Source: Bloomberg

JCI vs USD



Source: Bloomberg

Net foreign flow (IDRbn)



Source: Bloomberg



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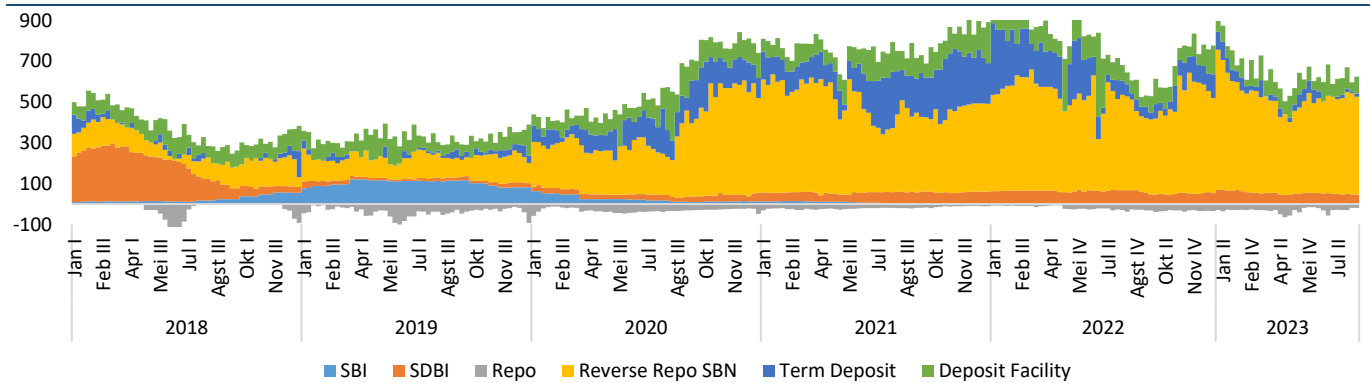
Exhibit 1. Bank Indonesia Rate Tracker

	2020	2021				2022				2023						
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Inflation vs Target	-0.8	-1.0	-1.0	-0.9	-0.8	-0.5	0.2	0.8	0.6	0.6	0.6	0.4	0.2	0.1	-0.1	-0.3
Rupiah Volatility	0.3	-1.0	0.0	0.5	-0.1	0.1	-0.2	-0.3	0.3	1.1	0.4	-0.3	1.3	0.1	-0.2	-0.2
Rate Spread	-0.8	-0.9	-0.9	-0.9	-0.9	-1.1	-1.7	-2.1	-2.1	-2.0	-2.1	-2.1	-2.2	-2.3	-2.3	-2.5
Fed Rate	-2.5	-2.5	-2.5	-2.5	-2.5	-2.3	-1.7	-0.9	-0.3	-0.3	-0.2	-0.2	0.0	0.1	0.1	0.2
OMO	0.8	0.4	0.8	0.8	1.4	1.6	2.3	3.7	3.0	3.2	3.2	3.3	4.3	3.7	3.7	3.7
Bonds	0.0	-1.5	1.0	-1.4	-1.9	-3.3	-1.2	-2.1	1.3	2.9	-0.7	0.7	0.0	0.2	0.9	0.3
Equities	-2.3	-2.0	-1.1	-1.3	-1.6	-0.8	-2.1	-1.4	-4.0	-2.1	-1.1	-1.2	0.4	-1.6	-2.2	-1.4
Manufacture Utilization Rate	0.4	0.9	1.0	0.6	1.0	0.4	0.1	1.1	0.3	0.4	0.4	0.6	0.8	0.1	0.7	1.0
BI Rate	3.75	3.5	3.5	3.5	3.5	3.5	3.5	4.25	5.5	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Hike/Cut	0	0	0	0	0	0	0	50	25	25	0	0	0	0	0	0



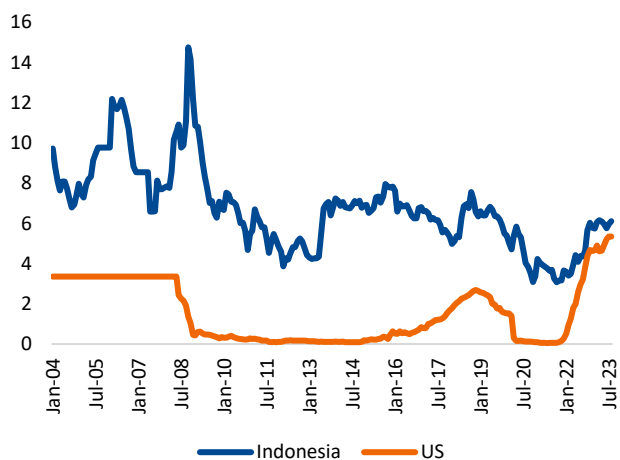
Source: BRIDS

Exhibit 2. BI Open Market Operation Outstanding – an Increase in Reverse Repo SBN



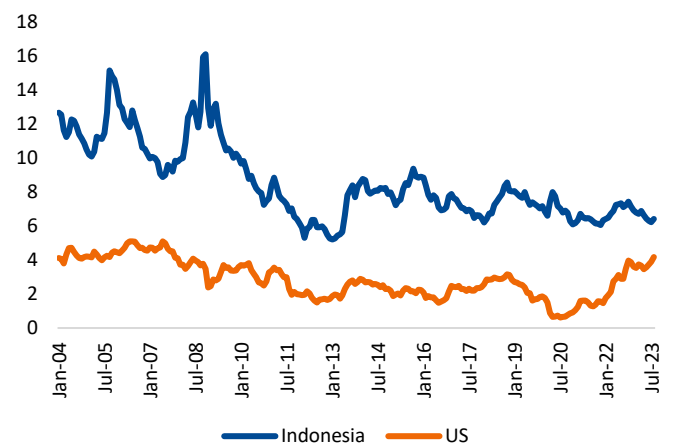
Source: Bank Indonesia

Exhibit 3. Gov't Bond 1-year yield (%)



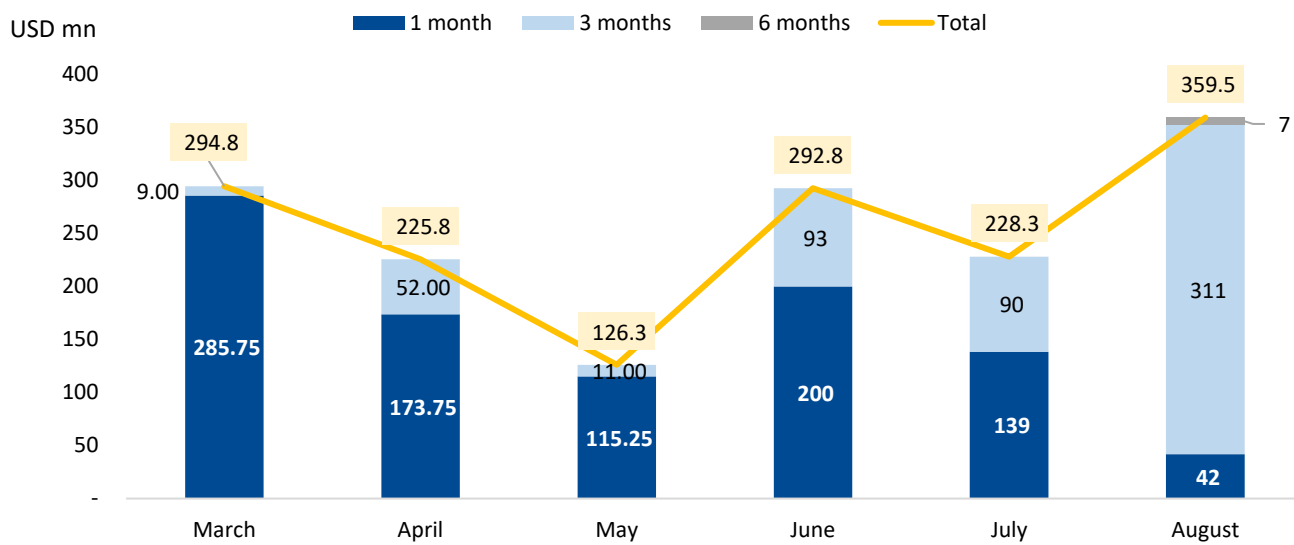
Source: Bloomberg, BRI Danareksa Sekuritas

Exhibit 4. Gov't Bond 10-year yield (%)



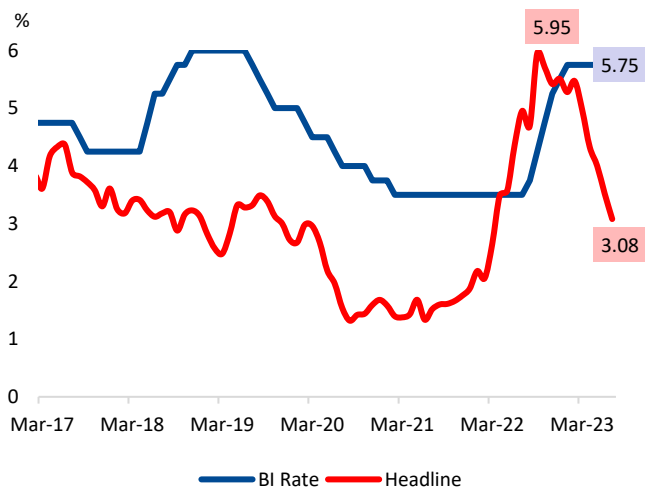
Source: Bank Indonesia, Bloomberg, BRI Danareksa Sekuritas

Exhibit 5. TD DHE Inflow



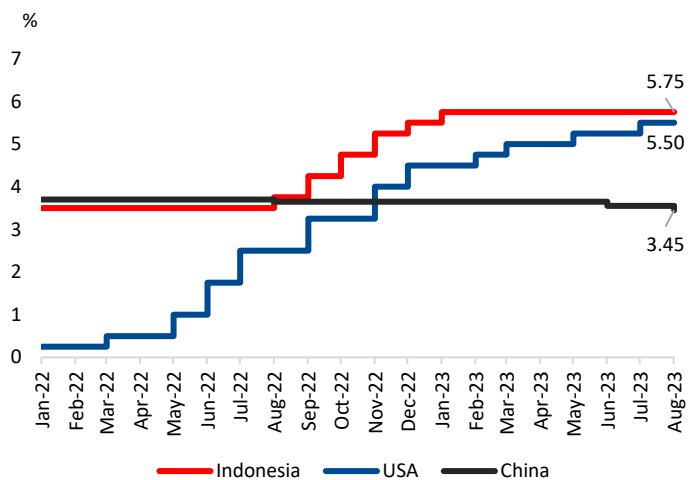
Source: Bank Indonesia

Exhibit 6. BI Rate & Inflation



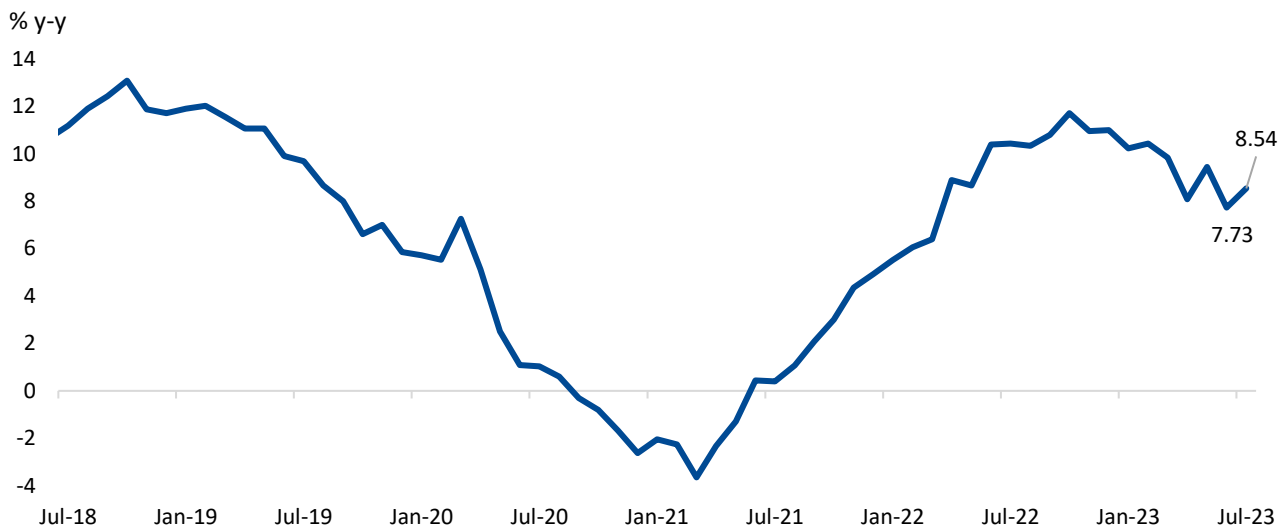
Source : Bloomberg, BRI Danareksa Sekuritas

Exhibit 7. Interest Rate



Source : Bank Indonesia, Bloomberg, BRI Danareksa Sekuritas

Exhibit 8. Loan Growth



Source: Bank Indonesia

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