

BI Policy: Fragile no more

Executive Summary:

- Bank Indonesia held the 7-Day Reverse Repo Rate at 3.50%, amid rising inflation around the globe.
- The Indonesian Rupiah remained remarkably stable and resilient despite a surge of capital outflows. This is explained by the streak of strong trade surpluses Indonesia has experienced due to high commodity prices.
- Even though Indonesia is better positioned than other emerging economies, the country does face two risks in 2022 in the form of (1) higher inflation, especially if amplified by energy price adjustment and (2) further slowdown in the Chinese economy.
- There is a lack of “synchronized sinking” among emerging markets as their fundamentals diverge – which, given Indonesia’s stronger fundamentals, should allowing BI to avoid a premature tightening of policy.

- Bank Indonesia (BI) maintained the 7-Day Reverse Repo Rate at 3.50%, in line with most analysts’ expectations. BI’s decision comes as international markets grapple with rising inflation rates. Indeed, the two largest economies in the world, the US and China, announced record-high inflation rates, at 6.2% and 4.5% YoY, respectively, in November.
- In response, a new narrative is emerging in the market in which global monetary authorities are preparing to withdraw their stimulus much faster than previously expected. The Fed’s tapering, which is apparently set to end in the middle of 2022, is now subject to speculation – including by upcoming FOMC voting member James Bullard – that it could be sped up to USD 30 Bn per month. This would mean that the program would be completed by the end of Q1-22.
- The upshot of this speculation is renewed turbulence in the bond market, of which Indonesia is not spared. During the second week of November, foreign investors conducted a net selloff of government bonds and – to a lesser extent – of stocks totaling Rp. 2.79 Tn.
- Nonetheless, amid this backdrop, the Indonesian Rupiah has remained remarkably resilient (**Table 1**), especially relative to its peers. **Unlike in 2013, when Indonesia was classified among the so-called “Fragile Five” most vulnerable to bond market turmoil, Indonesia is now an outlier on the positive side.** The most important reason is of course the strong trade surplus Indonesia has experienced for several months now, which has flipped the current account deficit to a surplus of 1.5% to the GDP in Q3-21 (*upcoming report*).
- Of course, this surplus has been partly a result of the global energy crunch, as global businesses scramble to meet demand from an unexpectedly steep recovery. But as we mentioned in our previous trade report, there has been some successful pushback to the increase in global energy prices, led particularly by China’s success in pushing down coal prices. As such, we expect future trade surpluses to normalize somewhat compared to the extraordinary figures in August-October, but still quite sufficient (USD 2-4 Bn) as a buffer against moderate capital outflows similar to what we are seeing now.
- The more significant risks going forward are twofold. The first is the likely increase in inflation in 2022, which may or may not involve official energy price adjustment by the government – **but if it does, may lead to slightly negative real interest rates similar to what we are seeing in peer countries.**
- The second is further slowdown in the Chinese economy as a result of the real estate squeeze and junk bond selloff surrounding the default of Evergrande. In recent days, we are seeing some reversal to this narrative as Beijing gave signals that it would try to ease the liquidity crunch – a welcome sign. On the other hand, a further deepening of China’s slowdown may lead to deterioration of Indonesia’s terms of trade, which would thin out the aforementioned trade surplus buffer.
- All in all, Indonesia is still in a much better shape amid the upcoming global monetary tightening cycle – and better still if our presumption of slow-rolling rate hike and prolonged negative real rates turns out to be true. Ultimately, there is no “synchronized sinking” for emerging markets currencies at this time, and what is happening in Turkey for instance has little to no bearing as to what might happen in Indonesia. This means that BI is likely to remain free from having to do sudden interest rate hikes.

Chart 1. Indonesia is better-positioned compared to other emerging economies

	Exchange Rate Change (6 Months)	Inflation (Oct-2021)	Real Policy Rate (Oct-2021)	Change in Policy Rate (6 Months)
Indonesia	0.49%	1.66%	1.84%	0.00%
Malaysia	-0.99%	2.20%	-0.45%	0.00%
Thailand	-3.54%	2.38%	-1.88%	0.00%
India	-1.44%	4.48%	-0.48%	0.00%
Turkey	-20.73%	19.89%	-4.89%	-4.00%
Brazil	-4.76%	10.67%	-2.92%	4.25%
Philippines	-4.70%	4.60%	-2.60%	0.00%
Russia	1.35%	8.13%	-0.63%	2.50%
Mexico	-3.76%	6.24%	-1.24%	1.00%

Source: Bloomberg

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	4.0
GDP per Capita (US\$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	2.3
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14,050	14,215
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	32.0
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-0.1

** Estimation of Rupiah's fundamental exchange rate

Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	18-Nov	-1 mth	Chg (%)
US	0.25	Mar-20	-5.95	Baltic Dry Index	2,454.0	4,732.0	-48.1
UK	0.10	Mar-20	-4.10	S&P GSCI Index	575.0	588.4	-2.3
EU	0.00	Mar-16	-4.10	Oil (Brent, \$/brl)	81.2	84.3	-3.7
Japan	-0.10	Jan-16	-0.20	Coal (\$/MT)	151.6	212.8	-28.8
China (lending)	4.35	Oct-15	2.85	Gas (\$/MMBtu)	4.96	5.03	-1.3
Korea	0.75	Aug-21	-2.45	Gold (\$/oz.)	1,858.9	1,764.9	5.3
India	4.00	May-20	-0.48	Copper (\$/MT)	9,508.5	11,299.5	-15.9
Indonesia	3.50	Feb-21	1.84	Nickel (\$/MT)	19,751.0	20,040.0	-1.4
Money Mkt Rates	18-Nov	-1 mth	Chg (bps)	CPO (\$/MT)	1,291.9	1,239.4	4.2
SPN (1M)	2.29	2.96	-67.0	Rubber (\$/kg)	1.70	1.72	-1.2
SUN (10Y)	6.02	6.08	-5.7	External Sector	Oct	Sep	Chg (%)
INDONIA (O/N, Rp)	2.79	2.79	-0.4	Export (\$ bn)	22.03	20.61	6.9
JIBOR 1M (Rp)	3.55	3.56	-1.0	Import (\$ bn)	16.29	16.23	0.4
Bank Rates (Rp)	Aug	Jul	Chg (bps)	Trade bal. (\$ bn)	5.73	4.37	31.1
Lending (WC)	8.92	9.00	-7.37	Central bank reserves (\$ bn)	145.5	146.9	-0.96
Deposit 1M	3.31	3.39	-8.15	Prompt Indicators	Oct	Sep	Aug
Savings	0.76	0.75	1.02	Consumer confidence index (CCI)	113.4	95.5	77.3
Currency/USD	18-Nov	-1 mth	Chg (%)	Car sales (%YoY)	#N/A	73.2	123.5
UK Pound	0.741	0.729	-1.69	Motorcycle sales (%YoY)	#N/A	22.0	48.2
Euro	0.879	0.861	-2.06	Cement sales (%YoY)	5.3	3.7	-1.0
Japanese Yen	114.3	114.3	0.05	Manufacturing PMI	Oct	Sep	Chg (bps)
Chinese RMB	6.386	6.430	0.68	USA	60.8	61.1	-30
Indonesia Rupiah	14,228	14,110	-0.83	Eurozone	58.3	58.6	-30
Capital Mkt	18-Nov	-1 mth	Chg (%)	Japan	53.2	51.5	170
JCI	6,636.5	6,658.8	-0.33	China	50.6	50.0	60
DJIA	35,871.0	35,258.6	1.74	Korea	50.2	52.4	-220
FTSE	7,256.0	7,203.8	0.72	Indonesia	57.2	52.2	500
Nikkei 225	29,598.7	29,025.5	1.97				
Hang Seng	25,319.7	25,409.8	-0.35				
Foreign portfolio ownership (Rp Tn)	Oct	Sep	Chg (Rp Tn)				
Stock	2,248.9	2,146.6	102.38				
Govt. Bond	949.3	961.8	-12.51				
Corp. Bond	23.1	24.0	-0.91				

Source: Bloomberg, BI, BPS

Notes:

*Previous data

For change in currency: **Black indicates appreciation against USD, **Red** indicates depreciation

***For PMI, > 50 indicates economic expansion, < 50 indicates contraction

Economic, Banking & Industry Research Team**David E. Sumual**

Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext: 1051352

Agus Salim Hardjodinto

Industry Analyst
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia

Economist / Analyst
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas

Industry Analyst
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia

Economist / Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Derrick Gozal

Economist / Analyst
derrick_gozal@bca.co.id
+6221 2358 8000 Ext: 1066722

Livia Angelica Thamsir

Economist / Analyst
livia_thamsir@bca.co.id
+6221 2358 8000 Ext: 1069933

Ahmad Aprilian Rizki

Research Assistant
ahmad_rizki@bca.co.id
+6221 2358 8000 Ext: 20378

Arief Darmawan

Research Assistant
arief_darmawan@bca.co.id
+6221 2358 8000 Ext: 20364

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 redistributed 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: 20364 or fax to: (62-21) 2358 8343 or email: ahmad_rizki@bca.co.id