

Monetary Stance:  
July 2022

July 31, 2022

## Bank Indonesia: Maintain the record-low BI7DRR of 3.5%

### Stability

Bank Indonesia (BI) Board of Governors (BOG) monthly meeting July last week (7/21) had decided to keep the reference rate unchanged at 3.5%, for the 18<sup>th</sup> month since February last year. Post COVID-19 pandemic peak, the current reference rate stance communicates confidence that main factors of economic growth as contained in the profiles of IDR exchange rate, and inflation level, are in-checked.

The dissemination of credence is especially important during the recovery phase of the COVID-19 pandemic time, declared for the first time in the last quarter of 2021. The dynamic of unprecedented events afterward has put many countries including Indonesia being exposed to risks that have put additional threats in the recovery process.

### Also reflected in the country's Sovereign Creding Ratings

As stated by the country's Financial Services Authority (OJK or "Otoritas Jasa Keuangan"), 3 (three) major agencies have issued affirmations on favorable status for Indonesia Sovereign Creding Ratings. Moody's affirmed Indonesia's rating at **Baa2** in February this year (since April 2018), and Fitch at **BBB** in June this year (since September 2018). Meanwhile, Standar&Poor's in April this year maintained its investment grade of BBB rating (since May 2019) for Indonesia and revised the outlook to **Stable** from Negative.

### Cut BI7DRR by a total of 125 basis points in 2020 to end at 3.75% in December

BI had started to loosen the monetary stance as early as February 2020 by cutting a rate of 25bp to 4.75% to anticipate intensifying COVID-19 pandemic impact, and later to respond with another cut of 25bp, respectively, in March, June, July, and November. In addition, effective May of the year, BI expanded monetary liquidity also by lowering banks reserve requirements by 200 basis points to 3.5% for conventional commercial banks. Similar measures were also applied to the sharia-based counterpart and credit cards. At the same time, BI increased the liquidity buffer to 6% of banks' Third-Party-Fund from the previous 4%.

Similar liquidity-easing measures have also been given to the shariah counterpart. The shariah banks' market share, in the latest record of February 2022, amounted to 6.65% (August 2014: 5.01%) in terms of total Indonesian banks' assets.

On the other end, the exchange value of USDIDR in 2020 depreciated by a relatively low average of 2.66% to IDR14,525 as compared to an average rate of IDR14,139 in 2019. At end of 2020, the inflation rate was at a historic low of 1.68% YoY (2019: 2.72% YoY, 2021: 1.87% YoY). Intense mobility

#### Disclaimer

Informasi yang terkandung dalam halaman Analisa Saham Indonesia adalah untuk keperluan informasi umum. Informasi ini disediakan oleh Analisa Saham Indonesia dan kami berusaha untuk terus memperbarui informasi dan memperbaikinya, namun kami tidak membuat pernyataan atau jaminan apapun, tersurat maupun tersirat, tentang kelengkapan, akurasi, keandalan, kesesuaian, atau ketersediaan atas halaman ini atau atas informasi, produk, layanan, atau grafik terkait yang terdapat di halaman ini untuk tujuan apa pun. Penggunaan dalam bentuk apapun atas informasi dalam Analisa Saham Indonesia merupakan risiko pengguna sendiri.

restrictions in the escalating phase of COVID-19 cases decreased not only the general consumer confidence but also the purchasing power.

### **Cut another 25bp in February 2021 to record-low 3.5% and other easings**

February last year, in addition to cut another 25 basis point of the reference rate, BI also eased the down-payment of vehicle financing up to 0%, effective for May through December 2021, in an effort to revive the automotive sector. Also, the Loan to Value/Financing to Value ratio for all types of the property was also reduced to up to 0%, for May into December 2021. In October last year, BI extended the programs relax-financing programs into December this year.

To note at the end of 2021, the USDIDR closed at IDR14,270 and recorded an appreciation against the USD of 1.83% on an annual average basis of IDR14,259. During higher volatility of USDIDR movement, the central bank BI intervened through open monetary operations in the spot market, domestic non-deliverable forward, and bonds purchase in the secondary market.

### **The government budget turned a surplus of 0.39% of GDP for the first half of this year**

During the COVID-19 pandemic in the past two years, the Indonesian government, by law, widened its budget deficit upper limit constraint of 3% of total GDP. The alleviation had enabled the posture of Indonesia's total budget deficits to be revised and stood at IDR947.7tr or representing 6.14% of the GDP (2019:-2.34%, 2018:-1.89%, 2017: -2.59%, 2016: -2.53%, 2015:-2.58%). Last year, the budget deficit was recorded at 4.65% of the total GDP.

In the while, as COVID-19 pandemic management in the country bore fruit, the country's budget profile has been improving. The latest figure for July that accounted for the first semester this year pointed to a surplus of 0.39% of total GDP (January: + 0.16%).

In 2020, to face the extraordinary COVID-19 pandemic years, the central bank BI has been mandated to involve in the government's fundraising activities. The capacities include one as a stand-by buyer in the government's initial debt offer. In addition, BI also serves as an appointed buyer for government bonds issued to finance more specific expenditures, in the schemes of both burden-sharing and full absorption. This quantitative easing poured out in 2020 amounted to a significant total of IDR 650.5tr

### **Financial sector resiliency**

March this year, total credit growth for conventional commercial banks was recorded at 6.67% YoY (2021: 5.24% YoY, 2020: -2.41%: 2019: 6.08% YoY). Much lesser restriction on COVID-19 health measures in the early and last quarter of 2021 has put the banking sector to return to the growth path.

The positive trend of credit growth since the start of this year (February: 6.41% YOY, January: 5.9% YoY) is consistent with the Total Third Party fund, which formed a declining trend (2021: 12.16% YOY, January: 11.96% YoY, February:

#### **Disclaimer**

*Informasi yang terkandung dalam halaman Analisa Saham Indonesia adalah untuk keperluan informasi umum. Informasi ini disediakan oleh Analisa Saham Indonesia dan kami berusaha untuk terus memperbarui informasi dan memperbaikinya, namun kami tidak membuat pernyataan atau jaminan apapun, tersurat maupun tersirat, tentang kelengkapan, akurasi, keandalan, kesesuaian, atau ketersediaan atas halaman ini atau atas informasi, produk, layanan, atau grafik terkait yang terdapat di halaman ini untuk tujuan apa pun. Penggunaan dalam bentuk apapun atas informasi dalam Analisa Saham Indonesia merupakan risiko pengguna sendiri.*

10.95% YoY, March: 9.7% YoY). This indicates optimism as funds is willing to leave the safe haven.

During the period 2020 -2021, the performance indicators of Indonesia's banks sector appeared solid against the background of the adverse business climate at the time. This year, along with the gradual improvement of the pandemic COVID-19 status in the country, BOPO, NIM, and Return-On-Assets have been advancing. In March this year, Indonesia conventional commercial banks sector CAR stood at 24.85% (2021: 25.66%, 2020: 23.89%, 2019:23.4%).

About similar strong achievements have also been attained by the shariah-bank counterpart.

### Dynamic Balance of Payment (BOP) posture since 2019

The current account net balance turned positive of surplus USD0.9bn in the 3Q20 was also due to the increase of commodity prices almost on all types such as copper, rubber, tin, and coffee. The current account balance had been a net deficit for the previous three consecutive periods: in 2019 of-USD30.3bn, in 1Q20 of USD-3.4bn, and 2Q20 of USD1.9bnYoY in 2020.

Lower world Brent price in 2020 (-35% YoY) gave favor to the BOP, with similar annual lower prices of coal (-19% YoY), tins (-6% YoY), aluminum (-4% YoY), Nickel (-0.1% YOY) did otherwise. However, later in 2021 during which time world oil price increased and at the same time the economy gradually recovered which burdened the BOP, Indonesia main export commodities prices increased. At end of last year, coal price turned positive (+130% YoY), and so was Nickel (+34%, YoY) (in Chart2).

The overall Indonesian balance of payment since 2020 has benefitted from the continuing higher trend of major export commodities prices in the periods afterward. In addition, perceptions of the country's macro condition have been maintained and drew back inflow of foreign funds since the 2Q20. Not less important, lower imports and people's mobility especially outside the country have put Indonesia's balance of payment in a favorable position.

Furthermore, policy measures to track, control, and enhance foreign currency movement have been refined.

### Foreign exchange debts

Asia's financial crisis that started in 1997 has shown that a country's economic growth is achieved at the term of all-expense has resulted in a not very good condition then. The all-expense included high leverage of the corporation, at the time in Indonesia where foreign funds were streaming-in preceding 1997. Corporations and government alike could not handle the depreciating USDIDR which then forced the authority to take bold action in the last quarter of 1997. Banks' CAR turned negative in the mid-1998 and started to recover on July 2000 and later achieved the minimum requirement of 8%. While overall confidence in the country's financial sector had been somehow restored in early 1999, the homework left for stakeholders in order to re-organize the tidy-up of the financial system had gone further.

#### Disclaimer

Informasi yang terkandung dalam halaman Analisa Saham Indonesia adalah untuk keperluan informasi umum. Informasi ini disediakan oleh Analisa Saham Indonesia dan kami berusaha untuk terus memperbarui informasi dan memperbaikinya, namun kami tidak membuat pernyataan atau jaminan apapun, tersurat maupun tersirat, tentang kelengkapan, akurasi, keandalan, kesesuaian, atau ketersediaan atas halaman ini atau atas informasi, produk, layanan, atau grafik terkait yang terdapat di halaman ini untuk tujuan apa pun. Penggunaan dalam bentuk apapun atas informasi dalam Analisa Saham Indonesia merupakan risiko pengguna sendiri.

One measure of the external-resiliency, that is, total foreign debt over the country's foreign exchange reserves has been improving and stabilizing since the year 2000, or after around 2 years of the crisis( in Chart 1).

The latest record of May this year on Indonesia's foreign exchange debt pointed to a total of USD406.3bn. The total debt comprised private corporations of USD209.4bn or representing about half (51.5%) of the total foreign exchange debt, while the rest of the government (46.3%), and the central bank (2.1%). Meanwhile, most of the debts are classified as long-term liability or debt that matures longer than one year. Severe mismatching between source and use of foreign exchange currencies may also result in the IDR's extreme volatility.

### 1Q22 GDP growth recaptured

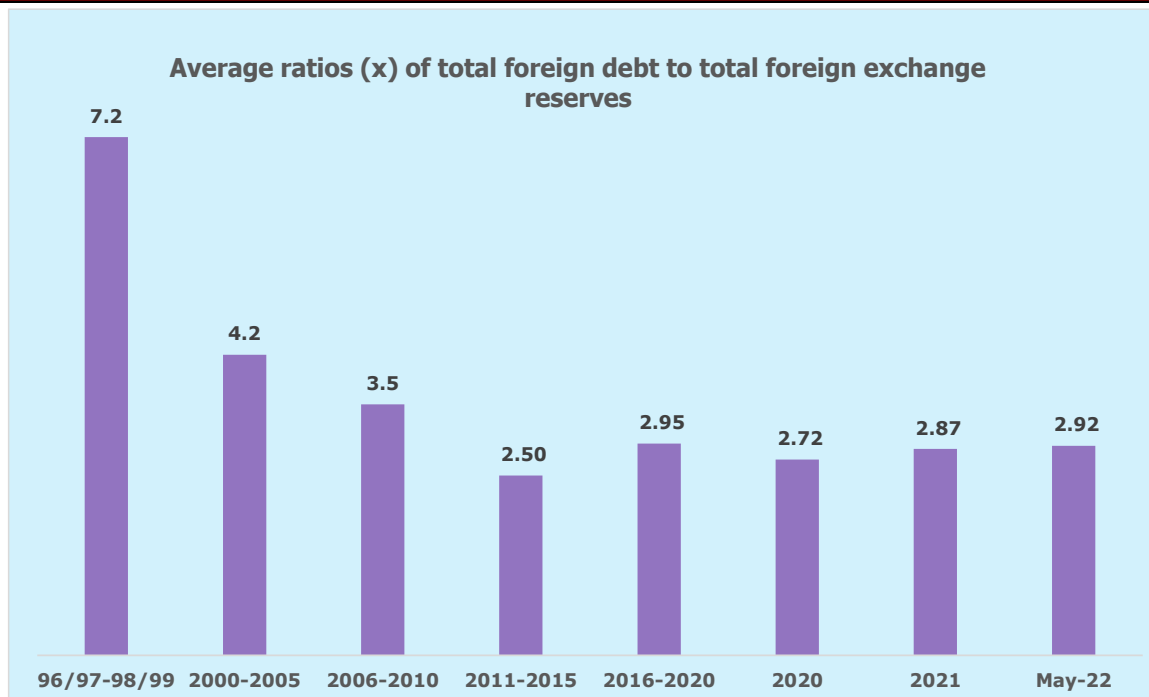
At the moment stakeholders in the country may gratefully applaud current post-COVID-19 recovery achievements as reflected in the GDP growth recovery ( in Chart 3).

As in the process of the country's official independence declaration back in 1945, the objective can be achieved only when workers do the job appropriately and ignore possible ill-intentions noises. Allahu A'lam

2

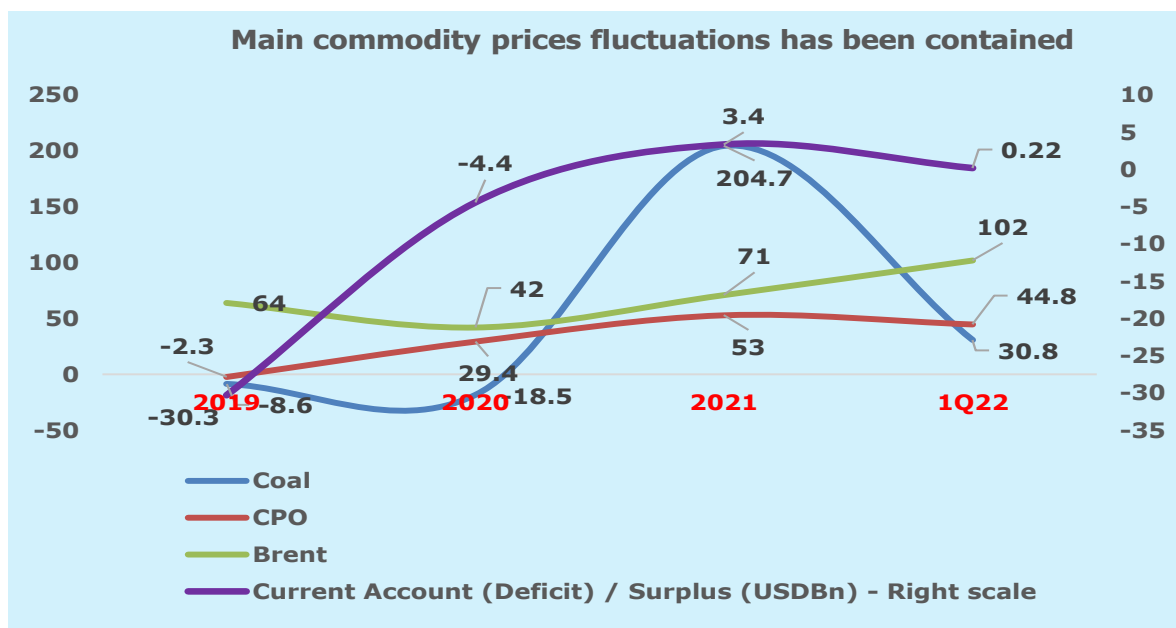
**Contact analyst: Dang Maulida**

**Graph 1: the lower the ratio the stronger the base**



Source: Bank Indonesia, Analisa Saham Indonesia

**Graph 2: commodity prices are interacting in the country's balance of payment**

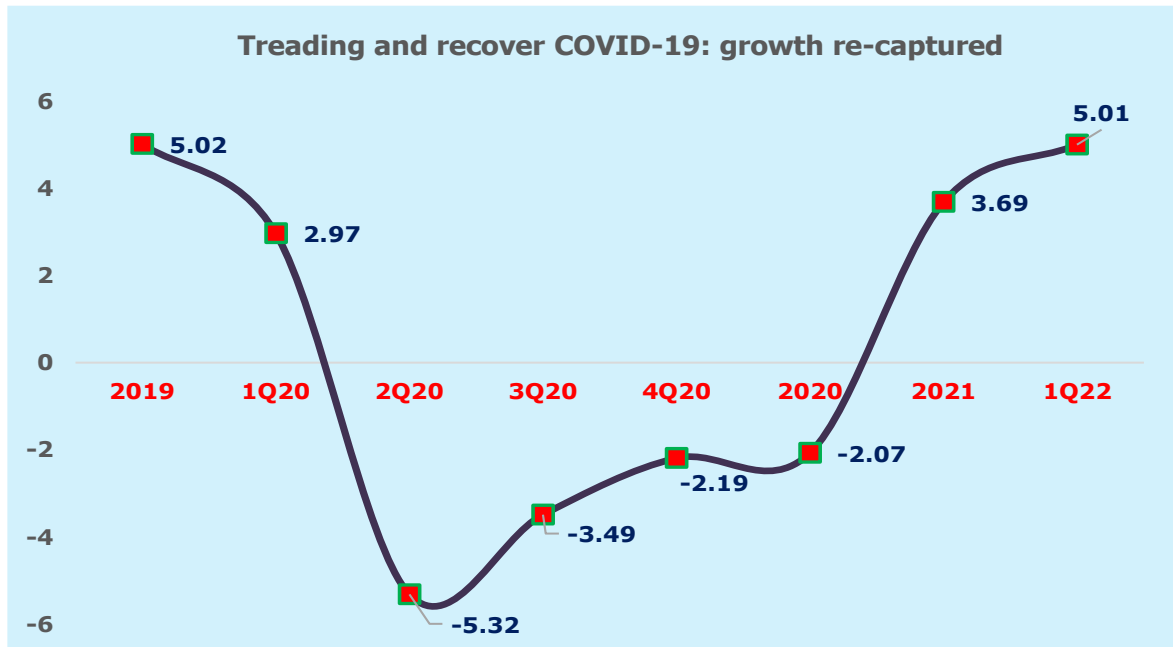


Source: Bank Indonesia, Analisa Saham Indonesia

**Disclaimer**

Informasi yang terkandung dalam halaman Analisa Saham Indonesia adalah untuk keperluan informasi umum. Informasi ini disediakan oleh Analisa Saham Indonesia dan kami berusaha untuk terus memperbarui informasi dan memperbaikinya, namun kami tidak membuat pernyataan atau jaminan apapun, tersurat maupun tersirat, tentang kelengkapan, akurasi, keandalan, kesesuaian, atau ketersediaan atas halaman ini atau atas informasi, produk, layanan, atau grafik terkait yang terdapat di halaman ini untuk tujuan apa pun. Penggunaan dalam bentuk apapun atas informasi dalam Analisa Saham Indonesia merupakan risiko pengguna sendiri.

Graph 3: Indonesia GDP growth (% YoY)



Source: Central Statistics , Analisa Saham Indonesia

The end of the report

#### Disclaimer

Informasi yang terkandung dalam halaman Analisa Saham Indonesia adalah untuk keperluan informasi umum. Informasi ini disediakan oleh Analisa Saham Indonesia dan kami berusaha untuk terus memperbarui informasi dan memperbaikinya, namun kami tidak membuat pernyataan atau jaminan apapun, tersurat maupun tersirat, tentang kelengkapan, akurasi, keandalan, kesesuaian, atau ketersediaan atas halaman ini atau atas informasi, produk, layanan, atau grafik terkait yang terdapat di halaman ini untuk tujuan apa pun. Penggunaan dalam bentuk apapun atas informasi dalam Analisa Saham Indonesia merupakan risiko pengguna sendiri.