INDOPREMIER

MacroInsight

14 December 2023

Macroeconomics Indicator

	2022	2023F	2024B
GDP growth (%YoY)	5.31	5.01	5.08
Inflation (%YoY)	5.51	2.87	3.59
BI rate (% Year-end)	5.50	6.00	6.00
Rp/US$ (Average)	14,855	15,203	15,076
CA deficit (% of GDP)	+1.1	-0.5	-0.7
Fiscal deficit (% of GDP)	2.38	2.02	2.29

FY24F GDP: expectation of frontloaded growth in 1H

- We expect a tad higher GDP growth at c.5.1% yoy in FY24F (c.5.0% in FY23) mainly from consumption (at c.6.3% yoy) amidst election activities.
- We see BI rate to be unchanged at c.6% in FY24F, assuming the FFR terminal rate at 5.5% despite higher Indonesia CPI at 3.6% yoy.
- We see fiscal policy to be on expansion mode with a deficit of c.-2.29% of GDP in FY24F (c.-2.0% of GDP in FY23F).

Higher consumption but weaker investment

We see the 2024 national election to have positive impact for consumption at c.+6.3% yoy (c.+5.1% yoy in FY23) which shall boost the overall GDP to be a tad higher at c.5.1% yoy in FY24F from c.5.0% yoy in FY23F. Meanwhile, we foresee a slower investment at c.+2.0% yoy (c.+4.1% yoy in FY23F) mainly from the wait and see mode during political year (see fig. 6). However, we see a positive catalyst to investment that might be coming from property sector on the back of the tax stimulus i.e. new homes with the value up until Rp5bn may enjoy free/discount VAT that shall positively impact to investment growth by an additional of around +1-2% yoy depending on the realization. Similarly, we expect lesser net-exports at c.+5.1% yoy in FY24 (c.+13.5% yoy in FY23) as the top commodity exports i.e. metals, coal and CPO price still forecasted to contract by around c.-5% in FY24 by the IMF.

Unchanged BI rate despite higher CPI outlook

We see BI rate to be kept unchanged at 6.0% in FY24, assuming the FFR terminal rate is at 5.5%. However, recent monetary policy guidance from the Fed (the Dec23 dot-plot) suggests a high possibility of 50-100bp rate cut in early 2H24. Shall it happen, we see a big probability of BI rate cut by around 50bp in 4Q24. In the meantime, we expect headline CPI to accelerate to c.+3.59% yoy (c.+2.87% yoy in FY23), mainly due to low-base effect and more demand-pull from higher consumption. However, we see the pick-up in CPI may not significant enough to push for tighter monetary policy. At the same time, we also estimate core CPI to be a tad higher at c.2.08% yoy (+1.94% yoy in FY23), indicating an improvement in household's spending appetite impacted by the election event.

Relatively more stable Rupiah

Meanwhile, we expect Rupiah to be at c.Rp15.1k/US$ FY24 average (vs. c.Rp15.2k/US$ FY23 average), as we see less pressure to Rupiah under the assumption of latest Fed's economic projection which suggest FFR to be cut by 50-100bp in the beginning of c.2H24.

Expansionary fiscal policy

We believe Jokowi's administration will put extra effort during its final year with a positive note. Hence, we believe the fiscal deficit realization may be set wider at c.-2.29% of GDP in FY24 (c.-2.0% of GFP in FY23). On FY24F APBN, the social protection budget is set higher at Rp497tr (+13.1% yoy) mainly distributed through PKH and staple foods. On the development side, we expect the government will put all efforts into finishing delayed infrastructure projects, as the infrastructure budget is being set higher to Rp423tr (+6.0% yoy) as the government may ramp-up unfinished priority projects by the end of 2024. We note there remains 25 national strategic projects (PSN) that are planned to finish by the end of 2024 with total estimated value of Rp152tr (c.0.7% of GDP).

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Fig. 1: Macroeconomic exhibit

	2022	2023F			2024F		
		Base	High	Low	Base	High	Low
GDP growth (%YoY)	5.31	5.01	5.16	4.73	5.08	5.21	4.83
Inflation (%YoY)	5.51	2.87	3.37	2.29	3.59	4.11	2.47
BI rate (% Year-end)	5.50	6.00	5.50	6.50	6.00	5.50	6.50
Rp/US$ (year-end)	14,855	15,541	15,977	14,956	15,214	15,774	14,875
Rp/US$ (average)	15,350	15,203	15,750	14,507	15,076	15,714	14,774
CA deficit (% of GDP)	+1.1	-0.5	-1.1	-0.2	-0.7	-1.5	-0.3
Fiscal deficit (% of GDP)	2.38	2.02	2.41	1.88	2.29	2.56	2.04
SUN 10y Yield (% avg)	6.82%	6.5-7.0%	6.0-6.5%	7.0-7.5%	6.5-7.0%	6.0-6.5%	7.0-7.5%

Sources: Indo Premier simulation

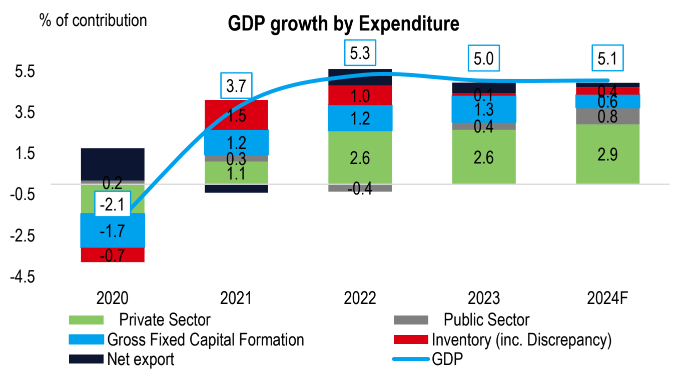
Stronger consumption but weaker investment

We see the 2024 national election to have positive impact for consumption at c.+6.3% yoy (c.+5.1% yoy in FY23). This would then push the overall GDP to be a tad higher at c.5.1% yoy in FY24 from c.5.0% yoy in FY23. We believe growth in FY24 will be supported by a rebound in domestic consumption at c.+6.3% yoy. This is sourced from accelerated public sector consumption at c.+10.9% yoy (+5.1% yoy in FY23) on the back of: (1) acceleration of capital spending target (+18.3% yoy) on infrastructure projects and election spending, and (2) potentially higher than expected social aids (targeted to increase by c.+13% yoy), which mostly will be disbursed in 1Q24 (at around c.Rp7-8tr).

Likewise, non-profit institution consumption i.e. political parties spending are expected to rebound at c.+9.7% yoy (c.+7.9% yoy in FY23). According to our initial estimate, there will potentially be c.Rp366tr additional money in the circulation from campaign spending (note that campaign period is on Nov23-Feb24). However, we see campaign spillover effect may be delayed and yet to be meaningful, as the M1 only recorded at only +0.1% yoy growth in Oct23. Hence, we expect there will be approximately c.Rp256tr additional money (or around c.Rp85tr/month until Jan24), based on our optimistic view.

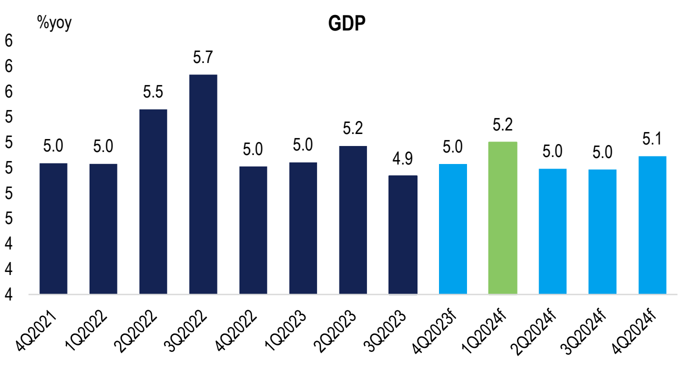
All in all, we expect the peak of consumption in 1Q24, emanating from more intense campaign period and the start of Ramadhan at the beginning of Mar24 (see our report here).

Fig. 2: higher public sector contribution to overall GDP growth



Source: BPS, Indo Premier

Fig. 3: frontloaded growth in 1H



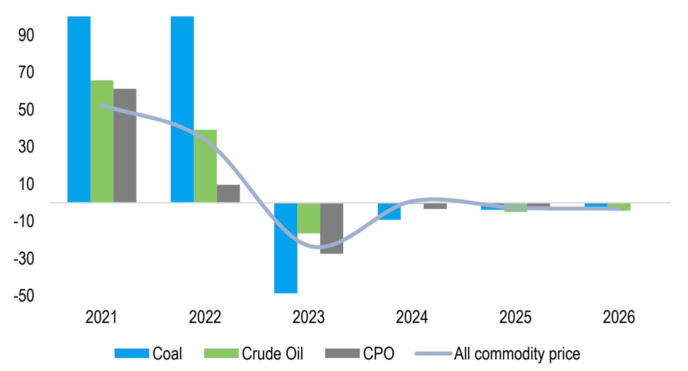
Source: BPS, Indo Premier

We are on the view that investment may decelerate to c.+2.1% yoy (+4.1% yoy in FY23). This is mainly on the back of slowing public sector investment at c.+3.7% yoy in FY24 (c.+6.1% yoy in FY23) as there will be likely no new projects. We see government may only finish existing projects with total value of c.Rp175tr or around 1% of GDP until the term ends. On private sector, we estimate total investment value will only grow at c.+1.9% yoy (+c.3.8% yoy in FY23) as investors may remain on the sideline prior to the announcement of new administration in c.Nov24.

On external trade, we project the contribution of net export to slow to +5.1% yoy (+13.5% yoy in FY23). This is in-line with lower global demand as IMF projected global economic growth to be at c.+2.9% yoy in FY24 (c.+3.0% yoy in FY23), mainly from Indonesia's biggest trading partners i.e. China and US at c.+4.2% and c.+1.5% in 2024 (vs. c.+5.0% and c.+2.1% in 2023).

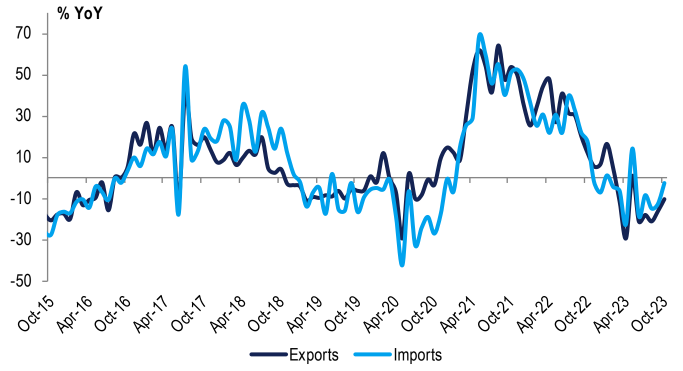
Likewise, global commodity prices may remain weak i.e. coal/CPO at c.-9.2%/-0.7% yoy (c.-49%/-17% yoy in FY23), potentially leading to a lower trade surplus. All in all, we expect current account deficit to slightly widen at c.-0.7% of GDP vs. c.-0.5% of GDP.

Fig. 4: Commodity prices are predicted to decline



Source: IMF, Indo Premier

Fig. 5: while import/export has reversed into contraction in FY23



Source: BPS, Indo Premier

Fig. 6: Economic growth summary (%yoy in real term)

	1Q2022	2Q2022	3Q2022	4Q2022	1Q2023	2Q2023	3Q2023	2022	2023base	2024base
GDP	**5.0**	**5.5**	**5.7**	**5.0**	**5.0**	**5.2**	**4.9**	**5.3**	**5.0**	**5.1**
Domestic Demand	**5.1**	**4.4**	**6.2**	**2.9**	**3.1**	**5.5**	**4.9**	**4.6**	**4.7**	**5.1**
Consumption	**3.3**	**4.2**	**4.3**	**3.0**	**4.5**	**5.9**	**4.0**	**3.7**	**5.1**	**6.3**
Private Sector	4.3	5.5	5.4	4.5	4.5	5.2	5.1	4.9	5.0	5.5
Non-Profit Institution	5.9	5.0	6.0	5.7	6.2	8.7	6.1	5.6	7.9	9.7
Public Sector	-6.6	-4.6	-2.6	-4.8	3.4	10.6	-3.7	-4.5	5.1	10.9
Gross Fixed Capital Formation	**4.1**	**3.1**	**5.0**	**3.3**	**2.1**	**4.6**	**5.8**	**3.9**	**4.1**	**2.1**
Private Sector	4.4	3.5	5.2	3.4	2.2	4.6	5.2	4.1	3.8	1.9
Public Sector *)	0.7	-0.2	3.5	2.5	1.0	5.0	10.3	1.7	6.1	3.7
Inventory (inc. Discrepancy)	48.5	15.8	66.9	52.3	-7.2	5.6	11.6	38.3	4.0	11.5
Net export	**2.3**	**39.8**	**-4.9**	**86.2**	**74.1**	**-2.5**	**6.0**	**25.4**	**13.5**	**5.1**
Export of Goods & Services	14.2	16.4	19.4	14.9	12.2	-3.0	-4.3	16.3	-0.4	-3.6
Import of Goods & Services	16.0	12.7	25.4	6.3	3.8	-3.1	-6.2	14.7	-2.9	-5.4

*Sources: BPS, Indo Premier simulation   *) inhouse simulation*

Meanwhile from the election, the result of national survey on President-Vice President electability held in Sep-Nov23 suggests that Prabowo Subianto & Gibran has the highest electability rate at c.38.2%, followed by Ganjar Pranowo & Mahfud MD at c.30.5% and Anies Baswedan & Muhaimin at c.21.7%. Likewise, on one-round scenario, the probability of Prabowo – Gibran to win the election stood at 42.5% vs. Ganjar – Mahfud MD at 21.9% and Anies – Muhaimin at 18.4%.

Fig. 7: Latest national surveys on President and Vice President electability

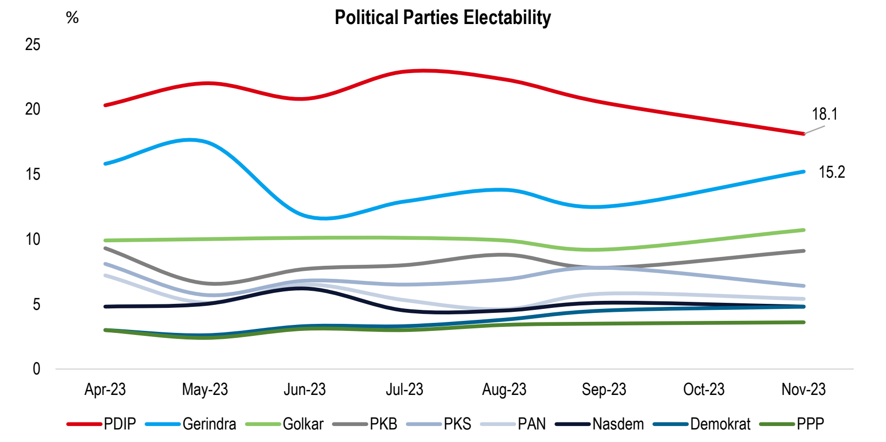
No	Survey Institutes	Survey Period	Prabowo - Gibran	Ganjar - Mahfud MD	Anies - Muhaimin	Other (Don't know, undecided)
1	LSI Denny JA	04-12Sep23	39.3	36.9	15.0	8.8
2	Poltracking	03-09Sep23	30.9	31.9	18.9	18.3
3	Alvara Research Center	01-06Oct23	30.1	36.5	19.4	14.0
4	Lembaga Survei PatraData	05-11Oct23	43.9	26.9	18.1	11.1
5	Indo Riset	05-11Oct23	37.2	31.4	26.9	4.5
6	Ipsos Public Affair	17-19Oct23	31.3	32.0	28.9	7.8
7	Lembaga Survei Jakarta	18-26Oct23	40.2	34.5	19.3	6.0
8	Charta Politika Indonesia	26-31Oct23	34.7	36.8	24.3	4.2
9	Indo Barometer	25-31Oct23	34.2	26.2	18.3	21.3
10	Lembaga Survei Indonesia	26-31Oct23	38.0	32.3	22.9	6.8
11	Indikator Politik Indonesia	16-20Oct23	36.1	33.7	23.7	6.5
12	Poltracking	Nov-23	40.2	30.1	24.4	5.3
13	LSI Denny JA	06-13Nov23	40.3	28.6	20.3	10.8
14	Lembaga Survei SPIN	01-10Nov23	43.0	26.1	22.7	8.2
15	Lembaga Survei Nasional	05-12Nov23	42.1	28.8	25.2	3.9
16	Populi Center	29Oct-05Nov23	43.1	23.0	22.3	11.6
	Average (National)		38.2	30.5	21.7	9.5

Sources: various, Indo Premier

The result is different with previous survey result where only 3-names President candidates were proposed, as the VP is yet to be declared at that time. Ganjar Pranowo lead the poll at 36.5%, slightly higher than Prabowo's at 36% (see our report here). Hence, we see that VP candidate has an important role to leverage electability, as confirmed by Populi Center's latest survey in which 89% respondents agreed that VP role will influence their decision to vote.

According to Populi Center's latest survey from 29th of Oct to 5th of Nov23, Prabowo & Gibran has the highest acceptability rate across all scenarios covering social-economic, corruption, job creation, IKN projects, and so on (see in fig 9). In-line with that, PDIP (Ganjar-Mahfud supporting party) electability dropped to 18.1% of total in Nov23 vs. 20.5% in Sep23 survey while Gerindra (Prabowo-Gibran supporting party) electability rose to 15.2% of total in Nov23 vs. 12.5% in Sep23.

Fig. 8: Political parties electability slightly changed; PDIP still the highest but declining



Sources: Populi center, CEIC, Indo Premier

Fig. 9: When respondents were asked about various scenarios to respective candidates. Prabowo-Gibran won across all scenarios

Scenarios	Acceptability President-Vice President			
	Prabowo Subianto - Gibran Rakabuming	Ganjar Pranowo - Mahfud MD	Anies Baswedan - Muhaimin Iskandar	Don't know
Able to guard security and stability	58.4	16.3	14.8	10.5
Accepted by gen-Z and millenials	45.9	23.3	21.2	9.6
Able to command/govern	45.0	23.1	21.3	10.6
Able to eradicate corruption	40.5	25.0	18.3	16.2
Could improve the economy	39.0	24.3	20.8	15.9
Will finish IKN project	38.0	25.0	18.5	18.5
Increase job creation	37.3	23.2	22.2	17.3
Could maintain the tolerance	36.2	27.6	23.1	13.1
Able to alleviate poverty rate	34.6	23.3	23.0	19.1
Able to maintain affordable prices	33.9	24.8	22.6	18.7
Average of total	**40.9**	**23.6**	**20.6**	**15.0**

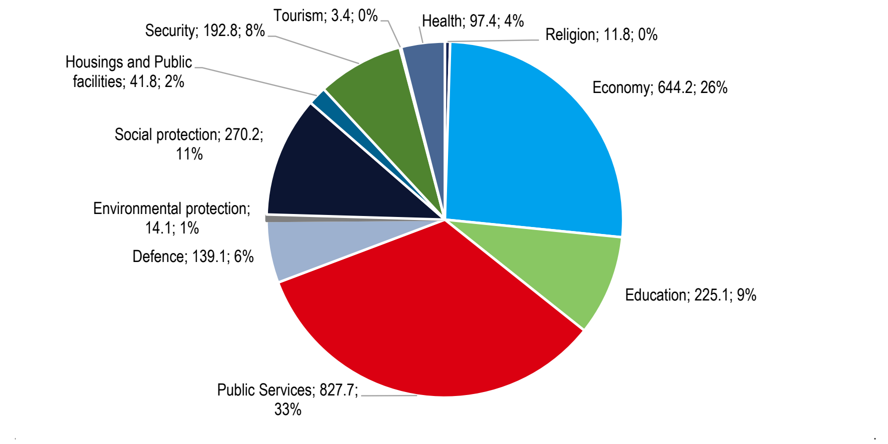
Sources: Populi center, Indo Premier

Government to prioritize public services improvement

On APBN 2024, we note that government will prioritize public services sector as it set higher budget to Rp828tr (33.5% of total budget) which accounts for higher salaries for civil servants & police by c.8% or at around Rp52tr additional budget. Public services budget will be mainly allocated to: (1) regional government information system which integrates planning and budgeting process, (2) election, (3) public census, (4) government interest payments. Whilst budget for the election is also set higher at Rp80tr or around 0.5% of GDP.

In addition, the economic sector (usually refers to physical development, direct social aid for guarding household purchasing power, business incentives, etc) will have the government's privilege with the budget of Rp644tr (26% of total). This is aligned with the government higher economic target at c.5.2% in FY24 (vs. its projection on 2023 outlook at c.5.1% in FY23). Implying that government should accelerate policies related to economic transformation, natural resources down streaming, etc.

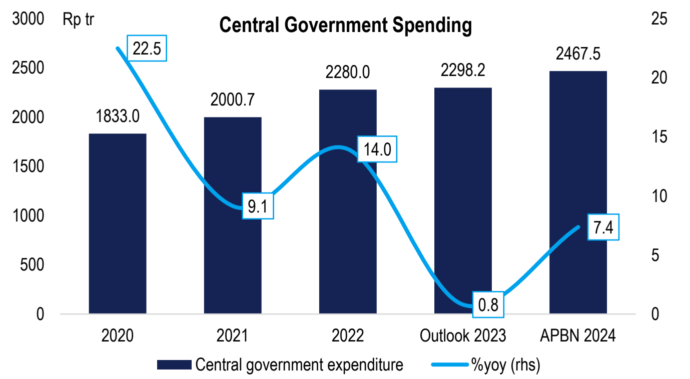
Fig. 10: Public services and economy sector have the highest allocated budget



Sources: MoF, Indo Premier

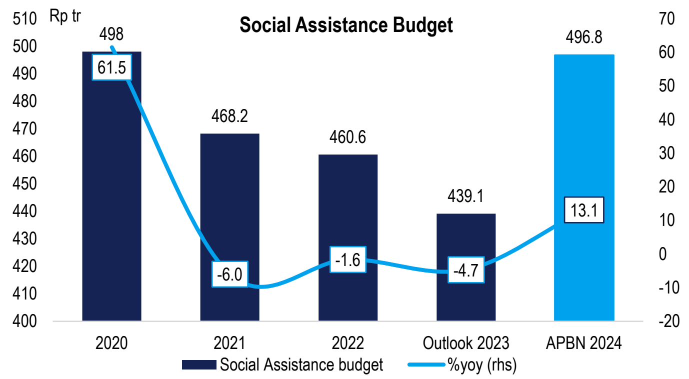
We note the social protection budget is being set higher at Rp497tr (+13.1% yoy) mainly distributed through PKH, staple foods, PBI JKN payments, education-related aids i.e. PIP, KIP, micro loans (KUR), and village cash transfer (BLT Desa). In addition, we may see additional social aids, likely to be disbursed in c.1Q24 at around c.7-8tr. Meanwhile, shall the election festive spillover weaker than expected, we expect central government may disburse more social aids after 1Q24 with estimated increase of c.10-15% of the existing budget.

Fig. 11: Higher central govt spending in 2024



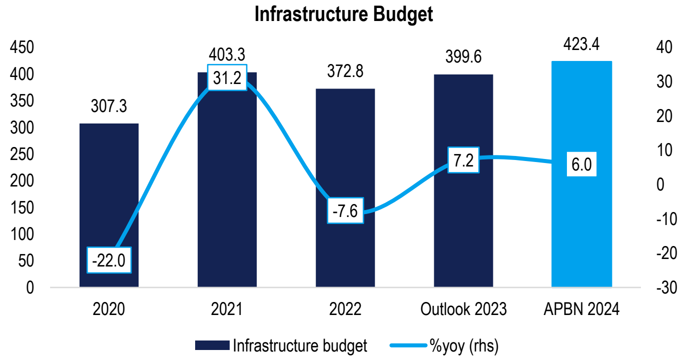
Source: MoF, Indo Premier

Fig. 12: sourced from higher social aids budget



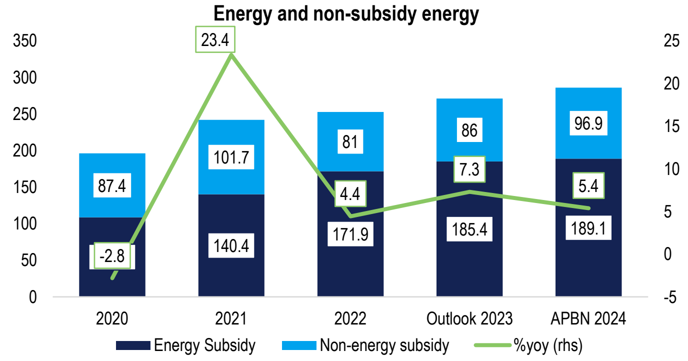
Source: MoF, Indo Premier

Fig. 13: higher infrastructure budget to accelerate unfinished projects



Source: MoF, Indo Premier

Fig. 14: Bigger chunk for non-energy subsidy



Source: MoF, Indo Premier

The infrastructure budget is being set higher to Rp423tr (+6.0% yoy) as the government may ramp-up unfinished priority projects by the end of 2024. Aligned with that, the budget allocation to the Ministry of Public Works and Housing (PUPR) is being set higher to Rp147tr (+17.7% yoy) which mainly will be realized to water resources, connectivity infrastructure, and residences/housing construction, totaling Rp139tr (94% of total).

We note there remains 25 national strategic projects (PSN) are due to be completed by the end of 2024 with total estimated value of Rp152tr (c.0.7% of GDP). Meanwhile, there is still on-going PSN in 2023 to finish in Oct-Dec23 worth of Rp23tr. We see this shall be in-line with higher government capital spending which grew at +25.3% yoy in Oct23.

Fig. 15: PUPR budget is mainly allocated to ramp-up PSN

Programs	Allocated budget to PUPR (Rp tr)	
	2023	2024
Water resources	39.4	45.1
Connectivity Infrastructure	46.9	53.0
Residences/Housing	30.8	40.9
Vocational program	0.1	0.1
Management	7.9	8.3
Total	**125.2**	**147.4**
Priorities	Multi-years projects, debt payments, rehabilitation & reconstruction	IKN construction and finalization of national strategic projects (PSN)

Source: MoF, Indo Premier

Fig. 16: as there will be 25 projects to finish in 2024

	Total projects	Value	Projects
2015-2023 (finished projects)	173	Rp,1442tr	Various projects ranging from toll roads, harbor, airports, railw ays, residences/housing sector, irigation & dams, sanitation, and energy
2023 (on-going projects)	12	c.Rp23tr	
2024	25	c.Rp152tr	
After 2024	42	c.Rp1,427	
Total estimated value		**Rp3,044tr**	

Source: MoF, Indo Premier

The government sets state revenue at Rp2,802tr (+13.8% yoy) in APBN 2024, supported by higher income tax at Rp1,140tr (+22% yoy). Indicating more optimistic view on the domestic economic activity.

On expenditure, total state spending target was set at Rp3,325tr (+8.6% yoy) on accelerated capital spending at Rp248tr (+18.3% yoy). In the meantime, energy subsidy budget is set lower at Rp286tr (-10.8% yoy) as more budget was allocated to non-energy subsidy at Rp97tr (+12% yoy). In sum, fiscal deficit is being set at -2.29% of GDP or Rp523tr, implying fiscal consolidation continues. We expect fiscal deficit to be at c.-2.3% of GDP (vs. APBN 2024's target at -2.3% of GDP).

Fig. 17: Summary of APBN 2024 (Rp tr)

	APBN 2021	APBN2022	APBN 2023	APBN2024	∆ (APBN 2024 - APBN 2023)	%YoY
Revenue *Of which,*	**1,743.6**	**1,846.1**	**2,463.0**	**2,802.3**	**339.3**	**13.8**
Tax Revenue	1,444.5	1,510.0	2,021.2	2,309.9	288.7	14.3
A. Income tax	683.8	680.9	935.1	1,139.8	204.7	21.9
B. VAT	518.5	554.4	743.0	811.4	68.4	9.2
C. International trade	35.0	41.1	57.7	74.9	17.2	29.7
D. Excise & Other Tax	207.2	233.7	285.5	283.8	-1.7	-0.6
Non-tax revenue	298.2	335.6	441.4	492.0	50.6	11.5
Grant	0.9	0.6	0.4	0.4	0.0	-2.3
Expenditure *Of which ,*	**2,750.0**	**2,714.2**	**3,061.2**	**3,325.1**	**264.0**	**8.6**
A. Personnel	421.1	427.7	442.5	484.4	41.9	9.5
B. Material	362.5	336.7	376.9	407.0	30.0	8.0
C. Capital	246.8	197.0	209.2	247.5	38.3	18.3
D. Subsidy	175.4	207.3	298.5	286.0	-12.5	-4.2
Energy Subsidy	110.5	134.3	212.0	189.1	-22.9	-10.8
Non-Energy	64.9	73.0	86.5	96.9	10.4	12.0
E. Other Expenses	748.7	1,545.5	919.3	1,042.7	123.4	13.4
Transfers & Village fund	795.5	769.6	814.7	857.6	42.9	5.3
Overall balance	**-1,006.4**	**-868.0**	**-598.2**	**-522.8**		
% of GDP	**-5.7**	**-4.9**	**-2.8**	**-2.3**		

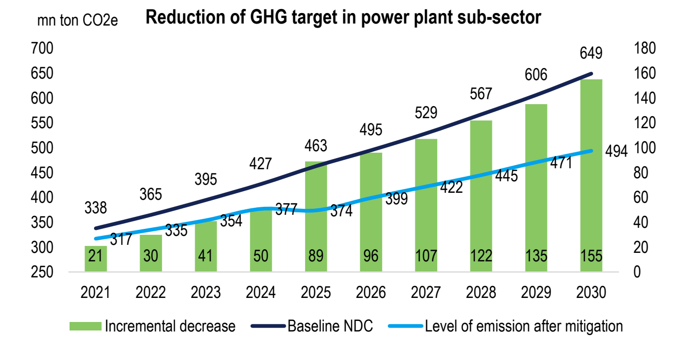
Sources: MoF, Indo Premier

In the meantime, we see the carbon trading initiatives to be supportive for higher long-term growth of over than 30yeas ahead. Indonesia's commitment to reduce the greenhouse gas emissions has been already stated in President Regulation (Perpres) no. 98/2021. The regulation governs the implementation of carbon pricing to achieve the Nationally Determined Contribution (NDC). In addition, a more detailed mechanism of carbon trading/exchange is governed in the Minister of Environment and Forestry regulation no 21/2022. In accordance with that, Indonesia has set target for greenhouse gas (GHG) emissions by around c.32-43% by 2030, in which energy & transportation, waste, industry, agriculture, and forestry would be the main sectors (see fig 19).

To achieve the goal, the Ministry of Mineral Resources and Energy (MoMRE) has implemented a mitigation measure in power plant by launching carbon trading in electrical power plant on 22nd of Feb23. This is divided into 3 phases: (1) phase-I: in 2023-2023, (2) phase-II: in 2025-2027, and (3) phase-III: in 2028-2030.

According to the MoF's estimate, overall state revenue through carbon tax is estimated at around c.Rp87.5tr (roughly 5% of total revenue). However, we believe the marginal benefit from better health situation may be hard to be quantified.

Fig. 18: Govt NDC to reduce GHG emission by 2030 in power plant



Source: MoMRE, IDX, Indo Premier

Fig. 19: The sectors within the scope of enhanced NDC

Sectors	GHG emission 2010	GHG emission by 2030			Emission reduction		Target by 2030, of total Business as Usual (BaU)
		BaU	CM1	1223	CM1	CM2	
Energy & Transportation	453.2	1669	1311	1223	358	446	12.5-15.5%
Waste	88	296	256	253	40	45.3	1.4-1.5%
IPPU/industry	36	70	63	61	7	9	0.2-0.3%
Agriculture	111	120	110	108	10	12	0.3-0.4%
Forestry	647	714	217	-15	500	729	17.4-25.4%
Total	1335.2	2869	1957	1630	915	1241.3	

*) CM1: domestic market, CM2: international, BaU: business as usual

Source: MoMRE, IDX, Indo Premier

There are two products to be traded in carbon exchange: (1) Allowance (PTBAE-PU) and (2) Offset (SPE-GRK) with different characteristics (see details in fig 21) with Indonesia Stock Exchange would be the facilitator to both sectoral and cross sectoral trading to be accessible by domestic and international carbon credit buyers.

Currently, there are already two types of carbon markets globally: (1) Compliance market (Emission Trading scheme) which reached US$851bn in 2021, and (2) Voluntary Carbon market with the value of US$2bn (estimated growth of US$10-40bn by 2030). As of this year, Indonesia, Vietnam, and Thailand compliance market (ETS) remains under consideration. Meanwhile, European Union ETS is a pioneer (operated initially in 2005) which has already covered 41% emission.

Fig. 20: There are 4 planned trading features to implement

Mechanism for each trading features			
Auction	**Regular Trading**	**Negotiated trading**	**Market Place**
The regulators will create auction session and input data for certain allowance include auction price range	Buyers and sellers submit order by inputing the volume of an asset price	Buyers and sellers deal outside the exchange	Project developers input project and price in the marketplace
Buyers will input desirable volume within price range	Buy order will queue in bid order book, sell order will queue in ask order book	Participants will input arranged volume and price, and counterpart ID to execute the trading	Buyers will browse the project and buy their preferred projects with certain volume
Regulators use auction data to decide allowance allocation	Exchange will match the order with **price** and **time** priority	Settlement will be done in the exchange	Transaction price will be done at set price
	Matched price will be market price		

Sources: IDX, Indo Premier

Fig. 21: Types of products that will be traded in carbon exchange market

	Type of producst that will be traded	
	Allowance market/emissions trading (PTBAE-PU)	Offset Market (Greenhouse gas offset)
Allocation/effective	Free allocation or via auction mechanism, and registered in National Registry System (SRN)	After project verification and registered in SRN
Trading Period	1 Period = different for each subsector, banking for 2 years	1 Period = max. 3 years
Surrender/retirement	Ending of compliance period or cancellation by ministries (subject to related ministries)	Retirement from Buyer
Trading actors	Seller: Ministries or Compliance Companies Buyers: Compliance companies	Seller: Project developers, 2nd hand buyers Buyer: Not limited, including compliance companies
Series	1 serial for: - each sub-sector - each period	a) Standardized products i.e Nature-based product: Indonesia NBS, Indonesia NBS Global Verification Tech-based product: Indonesia TBS, Indonesia TBS Global Verification b) Credits per project
Market	Auction, Regular Market, Negotiated Board	a) Regular Market for Std. product b) Auction, Project Marketplace, Negotiated Board
Settlement	T+0 / instantly	
Trading Participant	Direct trading	
Pricing Mechanism	Auction (Auction Market), Continous Auction (Regular Market); Bilateral (Negotiated Market and Marketplace)	
Clearing	Gross	
Risk-Management	Pre-validation/pre-funded	

Sources: IDX, Indo Premier

All in all, we see the carbon market initiatives shall be a good start to achieve the government NDC target by 2030. However, in the short run, an adverse impact is inevitable as companies delays their capex in order to collect the carbon credit (our simple simulation suggests a reduction in the range of 0.3-0.7% to the annual GDP growth). In the long run, we see a more quality growth and environment friendly economic activities that may contribute to higher GDP at c. 0.8-1.2% to the annual GDP growth.

Monetary policy pause during political year

We summarize key takeaways from Bank Indonesia 2023 Annual meeting on the 2024 monetary policy guidance, pointing to more accommodative monetary policy or pro-growth monetary policy stance. Furthermore, macroprudential policy will be set to be pro-growth as well, reflected in minimum reserve requirement (with total of Rp159tr liquidity incentive with additional Rp20tr), LTV/TFV at 100%, vehicle down payment at 0%, etc (see fig 22).

In-line with that, we see that BI remains optimistic on domestic economic growth which is predicted to be at the range of c.4.7-5.5% in 2024. According to BI, higher economic growth will be supported by election activity, higher civil servants' salary, continuation of down streaming policy and infrastructure construction in IKN. Likewise, the private credit growth is targeted to increase to c.10-12% in 2024 (vs. 9-11% in 2023). Lastly, BI will continue DHE SDA policy in 2024 to improve its absorption and compliance rate.

Fig. 22: Monetary policy will be pro-stability while other policies will be pro-growth

Bank Indonesia's guidance on its policies in 2024:	
Monetary Policy	Monetary policy will be pro-stability and pro-market. BI will optimize its monetary operation i.e. SRBI, SUVBI, SVBI, and at the same time supporting secondary market
Other policies	Macroprudential, payment system digitalization, financial market deepening, SMEs improvement, and shariah economy will be pro-growth
DHE SDA Policy	DHE policy (as governed in PP 36/2023) will be extended.
Macroprudential Policy	BI will maintain a loose macroprudential policy as follows:
	1. Increasing macroprudential liquidity incentive to boost credit/financing to priority sectors. The total of Rp159tr liquidity incentive with additional Rp20tr could be spent by banks.
	2. Other macroprudential instrument i.e. LTV/FTV at 100%, vehicle downpayment at 0%, macroprudential intermediation ratio at 84-94%, CCyB at 0%
	3. Macroprudential Liquidity Buffer (PLM) is kept at Rp81tr

Sources: BI, Indo Premier

On external side, the global economic growth is expected to be a tad lower at c.2.8% in 2024 vs. c.2.9% in 2023 as global economic uncertainty remains high. This shall be characterized by slower and divergence growth as US economy is expected to remain resilient but may be offset by slowing China's economy on declining property sector and challenging job market. In addition, higher for longer FFR and potentially stronger US$ shall prompt risks from capital outflows in emerging markets in 2024.

Fig. 23: BI's projection on key indicators of Indonesia economy

Bank Indonesia's target/projection on Indonesia economy	Inflation	Economic Growth	Credit Growth	Guidance
2023	2-4%	4.5-5.3%	9-11%	4Q23 economic growth to remain stable, supported by strong CCI and PMI manufacturing
2024	1.5-3.5%	4.7-5.5%	10-12%	Consumption and investment is expected to accelerate, supported by ASN salary increase, election, infrastructure construction in IKN, and down streaming. UU P2SK will be fully implemented in 2024
2025	1.5-3.5%	4.8-5.6%	11-13%	

Source: BI, Indo Premier

Fig. 24: BI's projection on key indicators of global economy

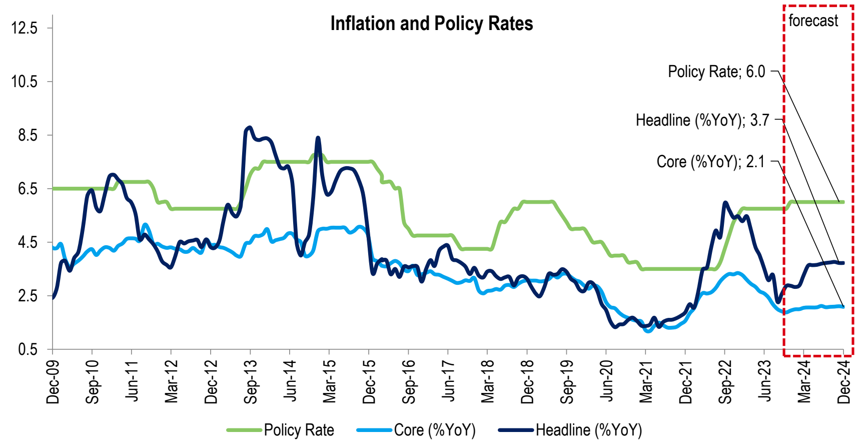
Year	Economic growth	Guidance
2023	2.9	US economy remains resilient (projection: 2.1% in FY23). China's economy recovered supported by consumption and fiscal stimulus.
2024	2.8	Economic uncertainty remains high with 4 characteristics: (1) slower & divergence growth, (2) gradual dis-inflation, (3) higher for longer FFR, (4) strong US$, risks from capital outflows
2025	3.0	

Source: BI, Indo Premier

We expect headline CPI to accelerate at c.+3.59% yoy (c.+2.87% yoy in FY23), mainly due to low-base effect, indicating relatively benign inflationary pressure as we expect volatile (fresh) food prices will decelerate on better harvest post the El-Nino effect in 2024. Additionally, we estimate core CPI to be a tad higher at c.+2.08% yoy (+1.94% yoy in FY23), indicating a slight improvement in purchasing power from election spillover and better household's spending appetite.

We see the increase in CPI to be not significant enough to push for monetary policy tightening. Hence, from inflation point of view, we see the BI re will likely to be unimpacted in FY24F.

Fig. 25: Inflation to accelerate on low base effect, expect lower (fresh) food prices



Sources: BI, Indo Premier

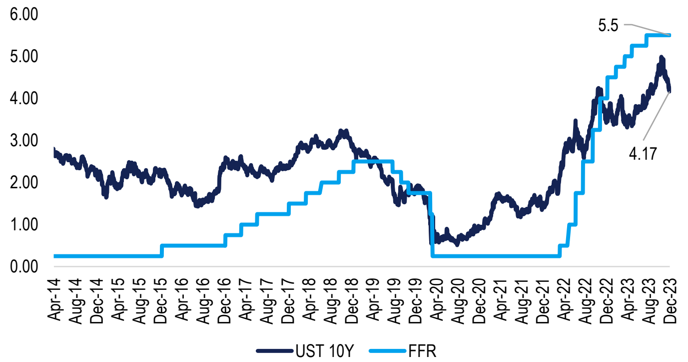
Lastly, we expect Rupiah to be at c.Rp15.1k/US$ FY24's average, implying year-end position at c.Rp15.2k/US$ (vs. Rp15.5k/US$ average and Rp15.2k/US$ in year-end in FY23's). We are on the view that pressure to Rupiah will be less in FY24 under the assumption of latest Fed's economic projection which suggest FFR to be cut by 50-100bp in early c.2H24. If that materializes, we believe a high possibility of BI rate cut in 4Q24 by around 50bp. However, our base scenario for now is unchanged BI rate at 6.0% until end of 2024, as we see it as the optimal rate to guard macroeconomic stability while at the same time promoting economic activity.

Risk to our call will emanate from unanticipated higher adjustment to the FFR (very low possibility according to the Dec23 dot-plot) that may lead to higher Rupiah volatility. Shall it happen, we see the BI rate will follow suit in order to maintain the interest rate parity.

In addition, we also internalize the possibility of higher-than-expected UST10Y yield (at c.4.2%/3.4% in Dec23/Jan23) as projected bigger-than-expected US fiscal deficit (currently at -US$1.7tr in FY23 vs. -US$1.38tr in FY22) may lead to higher US bond issuance (note that US treasury department plans to issue around c.US$776bn in 4Q23 and c.US$816bn in 1Q24).

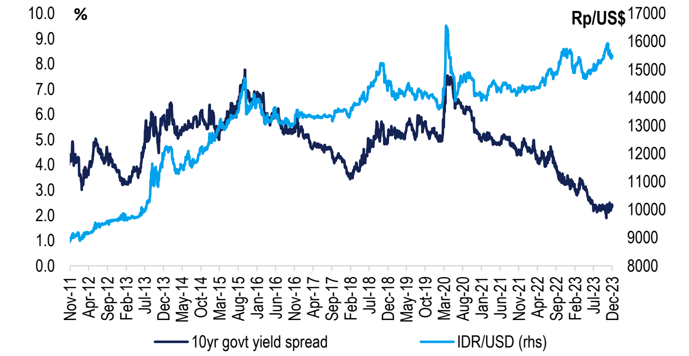
The higher-than-expected UST10y may impact to Indo-10Y yield. Nevertheless, for now we keep our forecast of the Indo-10Y yield to be at around 6.5-7.0% in FY24 (relatively unchanged with FY23), implying our view on the continuation of government bond supply shortage.

Fig. 26: UST10Y has dropped from its peak



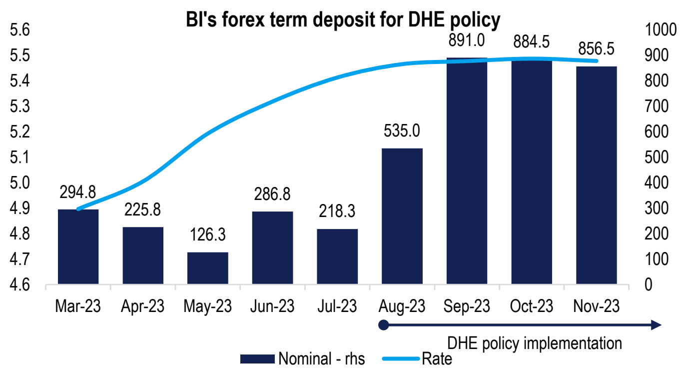
Source: Bloomberg, Indo Premier

Fig. 27: 10y govt yield spread was stable while Rp appreciated further



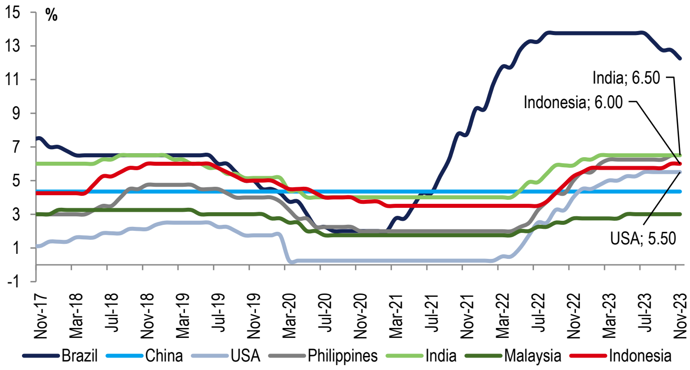
Source: Bloomberg, Indo Premier

Fig. 28: DHE policy will be extended as its receipt remains limited



Source: BI, Indo Premier

Fig. 29: BI rate likely at 6.0% until end of 2024, contingent to FFR



Source: BI, Indo Premier

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