

## Indonesia Monetary Indicators

BI's Benchmark Rate and Forecasts	March	April
7 Day Reverse Repo Rate	5.75%	5.75%
Deposit Facility Rate	5.00%	5.00%
Lending Facility Rate	6.50%	6.50%
2023 GDP Growth Forecast	4.5-5.3%	4.5-5.3%
2023 Current Account Ratio Forecast	0.4-(-0.4)%	0.4-(-0.4)%
2023 Inflation Target	3±1%	3±1%
2023 Credit Growth Forecast	10-12%	10-12%
Money Supply and Banking Sector Indicators	Februari	Maret
Currency Growth	2.3%	6.7%
Narrow Money (M1) Growth	9.5%	4.8%
Broad Money (M2) Growth	7.9%	6.2%
Third Party's Deposit Growth	9.1%	7.0%
Bank Loan Growth	10.4%	9.9%
Electronic Money Transaction Growth	31.1%	11.4%
Digital Banking Transaction Growth	28.4%	9.9%
ATM, Debit and Credit Card Transaction Growth	9.6%	0.5%

Source: Bank Indonesia, SSI Research

## BI's optimism for faster disinflation

*Bank Indonesia decided to keep its 7-day reverse repo rate (7DRRR) at 5.75%, after considering the possibility of CPI inflation returning to the 3±1% range before September 2023, sooner than previously expected. According to our projections, the scenario is possible, provided that Idul Fitri-driven inflation in April does not exceed 0.8% mom. In addition, there's a possibility that BI may start cutting its 7DRRR in 2H23, with a total cut of 100-125 bps, to 4.5-4.75%. With the rate cut, the slowdown in banking credit growth (which has returned to single-digit levels) can be contained.*

**Bank Indonesia kept its 7-day reverse repo rate (7DRRR) at 5.75%, in line with market expectations.** This decision was made on two considerations. First, BI wanted to maintain the momentum of domestic economic recovery amidst declining export performance due to the global economic slump. In our report on March export-import data, we mentioned that Indonesia's trade balance surplus fell to USD 2.9bn from USD 5.5bn in February, due to export contraction of -11.3% yoy (see [Trade surplus plunged in March](#)). Second, BI considered the possibility of CPI inflation returning to the 3±1% range before September 2023, sooner than previously expected.

**According to our estimate, inflation could soon return to the 3±1% range in July 2023, provided that Idul Fitri-driven inflation in April 2023 does not exceed 0.8% mom.** If the April 2023 inflation exceeds this limit, then inflation might return to the desired range in September 2023, in line with BI's previous prediction (See Chart 1). The difference is important since it might influence Bank Indonesia's rate cut timing.

**We project that BI might start cutting its 7DRRR as soon as August 2023 (scenario A), with a total cut of 125 bps (5X25 bps), bringing it to 4.5% by the end of 2023.** Meanwhile, in scenario B, we estimate the cut will start in September 2023, with a total cut of 100 bps (4X25 bps) to 4.75% (see Chart 2). In both scenarios, we assume the Fed Pivot will occur in September 2023, with a total Fed rate cut of 50 bps (2X25 bps). Our pivot assumptions are based on a survey of Fed rate projections conducted by the CME Group.

**The 7DRRR cut is vital to contain the slowdown in banking credit growth.** The latest data from BI shows that the banking credit growth rate continues to slow down (see Chart 3). If the current 7DRRR rate is maintained through the end of the year, the slowdown will continue, and BI will fail to achieve its 2023 banking credit growth target of 10-12%. Therefore, the 7DRRR cut in 2H23 is crucial in maintaining the momentum of banking credit growth.

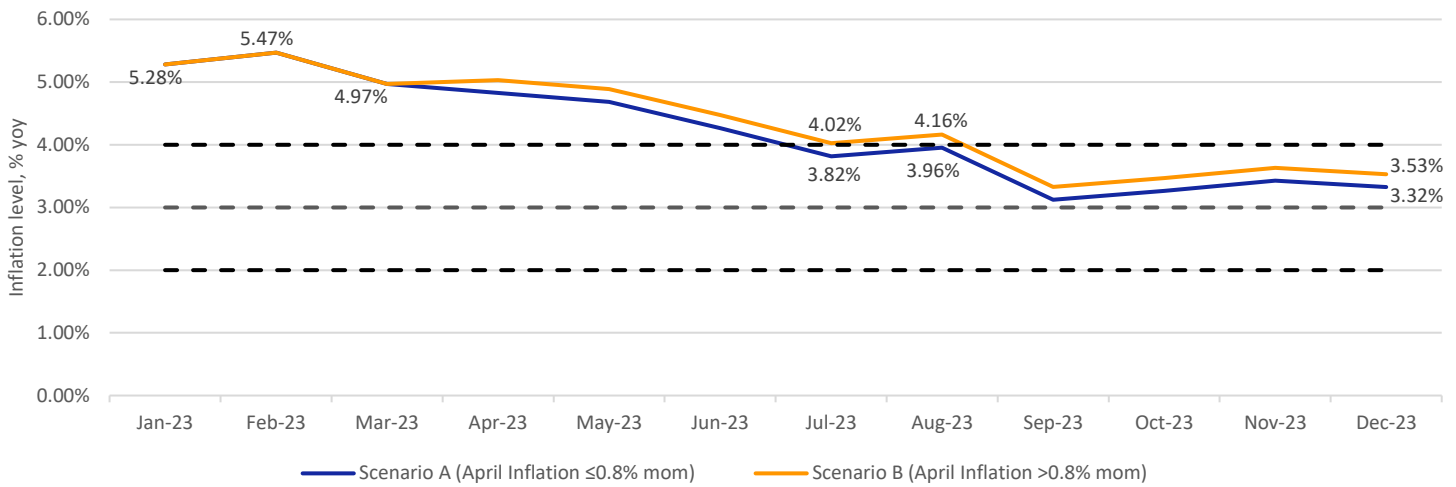
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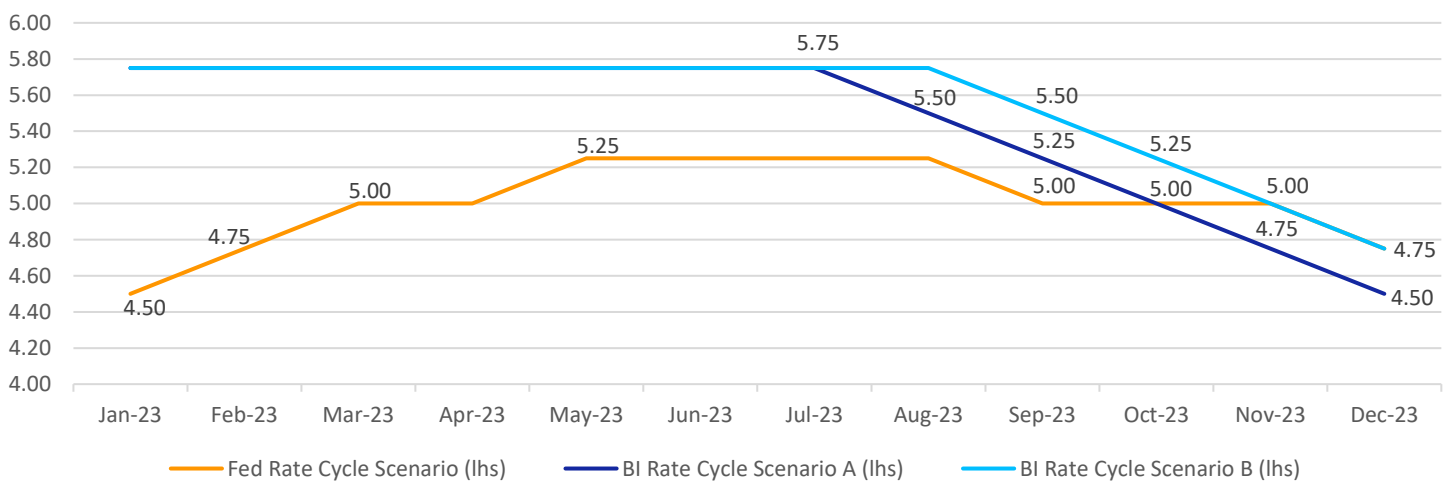
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**Chart 1. SSI Inflation Projections for Indonesia, Divided into Two Scenarios**



Source: BPS, Bank Indonesia, SSI Research.

**Chart 2. SSI Projections for Bank Indonesia's 7DRRR**



Source: Bank Indonesia, The Federal Reserve, CME Group, SSI Research

**Chart 3. Indonesia's Bank Loan Growth Time Series Trend**



Source: Bank Indonesia, SSI Research

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