

Indonesia Monetary Indicators

BI's Benchmark Rate and Forecasts	April	May
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	March	April
Currency Growth	6.7%	-1.0%
Narrow Money (M1) Growth	4.8%	3.4%
Broad Money (M2) Growth	6.2%	5.5%
Third Party's Deposit Growth	7.0%	6.8%
Bank Loan Growth	9.9%	8.1%
Electronic Money Transaction Growth	11.4%	9.0%
Digital Banking Transaction Growth	9.9%	-20.1%
ATM, Debit and Credit Card Transaction Growth	0.5%	-3.4%

Source: Bank Indonesia, SSI Research

BI chooses to hold 7DRRR amid monetary and banking tightening

As previously expected, Bank Indonesia chooses to hold 7DRRR at 5.75%. The decision was made after considering the strong disinflationary momentum, with headline inflation expected to drop to BI's target range of 3±1% in 3Q23, and global market turbulence, which led to rupiah depreciation in the past month. BI's decision to maintain its high interest rate policy had a negative impact on the banking sector and Indonesia's economy, as reflected in the decline of banking credit growth and transaction activity (both cash and non-cash) in April. Reflecting on these conditions, we reiterate our projection of 50 bps BI rate cut in 2H23 to 5.25%.

Bank Indonesia chooses to keep its 7DRRR at 5.75%, in line with consensus.

The central bank also kept deposit and lending facility rates unchanged at 5% and 6.5%, respectively. The decision was made based on two factors; the strong disinflationary momentum and the need to maintain the stability of rupiah. BI estimates that Indonesia's disinflationary process will continue as projected; headline inflation is predicted to drop to the target range of 3±1% in 3Q23. Meanwhile, rupiah lost some steam in May, as reflected in the decline of the year-to-date rate of rupiah appreciation, from 5.26% ytd at the time of the BI's April RDG results announcement (4/17) to 4.48% ytd the day before the announcement of BI's May RDG results (5/24). Rupiah depreciation in May was caused by unstable global economic conditions, mainly due to the protracted negotiations on the US debt ceiling and the possibility of more Fed rate hikes in July.

Monetary and banking indicators slow down considerably due to the high interest rate policy, and we see this as a strong catalyst for BI to start cutting 7DRRR in 3Q23. The most striking slowdown was observed in the banking credit growth rate, which fell to 8.1% yoy in April (Mar: 9.9% yoy, see Chart 1). Working capital loans experienced the worst slip to 6.6% yoy (Mar: 10% yoy), followed by consumer loans (8.7% yoy, Mar: 9.1% yoy). Meanwhile, investment credit growth remained at the double-digit level of 10.1% yoy (Mar: 10.3% yoy). If this continues, there is a possibility that BI might fail to achieve its FY23 credit growth target of 10-12%. Apart from experiencing slower credit growth, the Indonesian banking sector also experienced a contraction in the value of non-cash transactions (ATM, digital, credit and debit cards). Initially, we suspected that the decline was due to the seasonal effect of Eid. However, the contraction in the amount of cash in circulation indicates a general slowdown in transactions (see Chart 2). We view this phenomenon as a signal of a slowdown in the Indonesian economy. Reflecting on these conditions, we believe that BI will ease its interest rate policy starting in 3Q23, with a projected cut of 50 bps to 5.25%.

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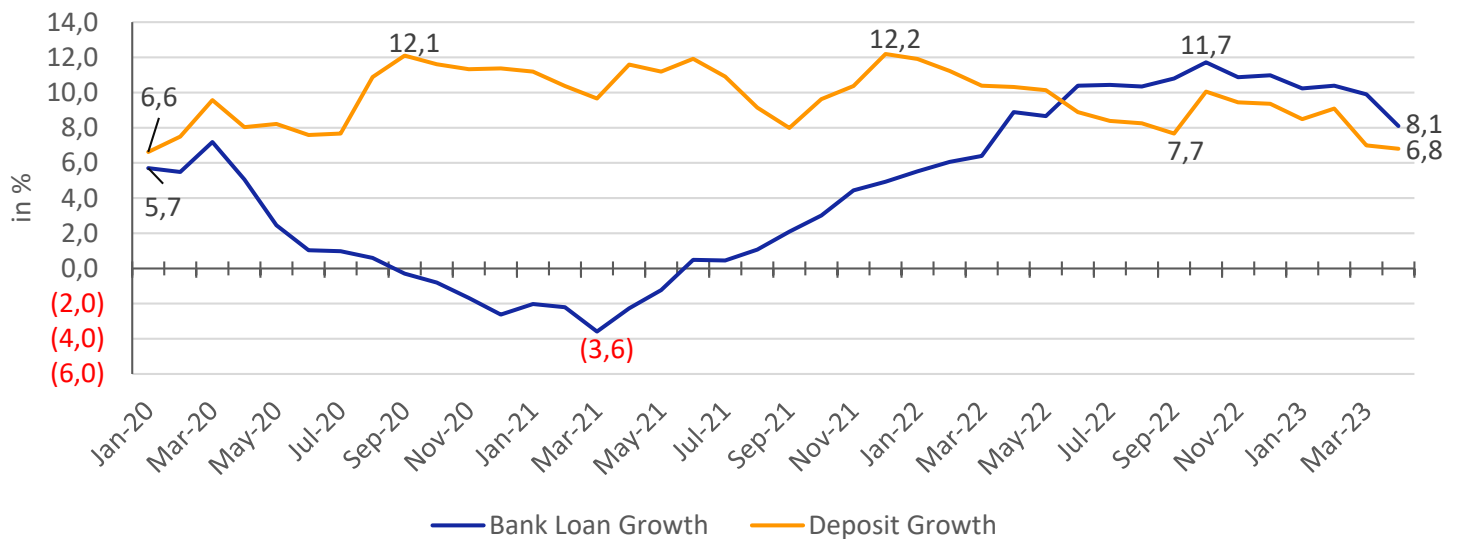
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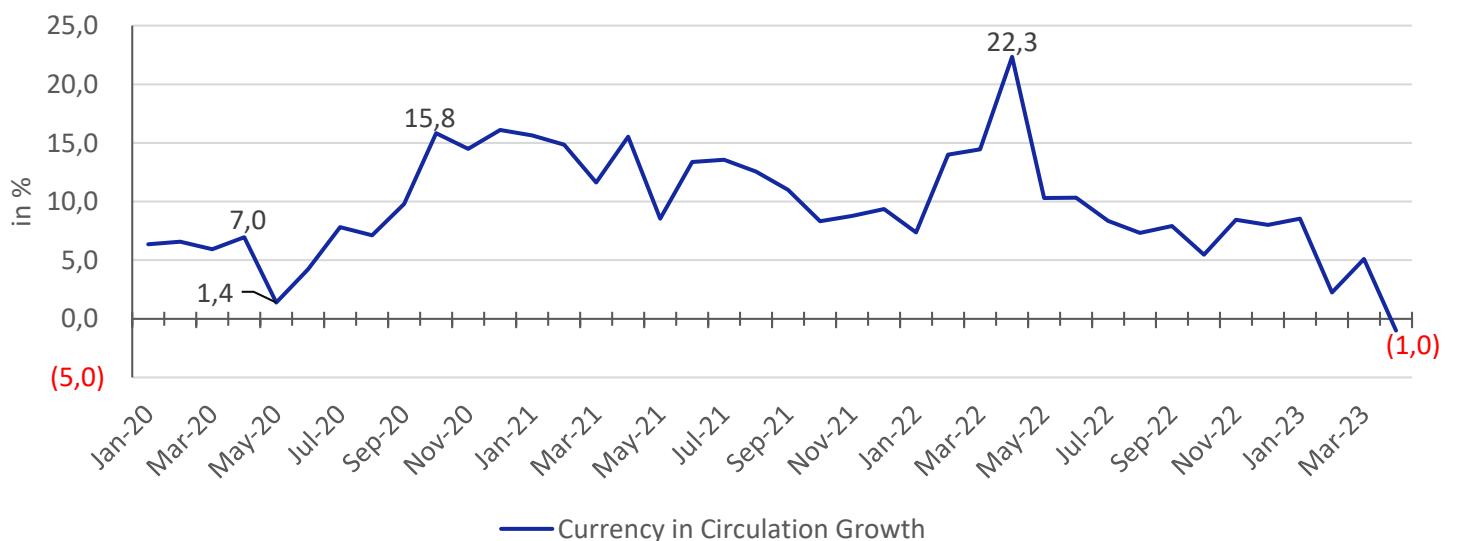
Table 1. SSI Macroeconomic Forecast Table

Indicators (% yoy)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23F	3Q23F	4Q23F	FY21	FY22	FY23F
Real GDP (NSA % qoq)	(0.9)	3.3	1.5	1.1	(1.0)	3.7	1.8	4.0	(0.9)	3.4	1.7	0.6			
Real GDP	(0.7)	7.1	3.5	5.0	5.0	5.4	5.7	5.0	5.0	4.6	4.5	4.7	3.7	5.3	4.7
Unemployment rate (% nsa)	6.3	6.3	6.5	6.5	5.8	5.8	5.9	5.9	5.5	5.5	5.4	5.3	6.5	5.9	5.3
Consumer price	1.4	1.3	1.6	1.9	2.6	4.4	6.0	5.5	5.0	3.8	2.6	2.8	1.9	5.5	2.8
Current account balance (% to GDP)	(0.4)	(0.7)	1.7	0.5	0.2	1.1	1.3	1.3	0.9	(0.6)	(0.3)	(0.4)	0.3	1.0	(0.1)
12M rolling sum	(0.2)	(0.1)	0.3	0.3	0.4	0.9	0.8	1.0	1.2	0.7	0.3	(0.1)			
Fiscal balance (% to GDP)	(0.8)	(1.7)	(2.7)	(4.6)	0.1	0.4	0.3	(2.4)	0.6	(1.1)	(1.8)	(2.8)	(4.6)	(2.4)	(2.8)
Policy rate, 7 day reverse repo rate (%)	3.50	3.50	3.50	3.50	3.50	3.50	4.25	5.50	5.75	5.75	5.50	5.25	3.75	5.50	5.25
10-year government bond yield (%)	6.78	6.59	6.26	6.38	6.74	7.22	7.37	6.94	6.79	6.40	6.20	6.00	6.38	6.94	6.00
Exchange rate (USD/IDR)	14,525	14,500	14,313	14,253	14,369	14,898	15,228	15,568	14,995	14,600	14,700	14,900	14,253	15,568	14,900

Source: SSI Research.

Chart 1. SSI's Main Macro Indicators for the Banking Sector


Source: Bank Indonesia, SSI Research

Chart 2. SSI's Main Monetary Indicator to Gauge Economic Health


Source: Bank Indonesia, SSI Research

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