

Indonesia Monetary Indicators

| BI's Benchmark Rate and Forecasts | May | June |
|---|-------------|-------------|
| 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 | April | May |
| Currency Growth | -1.0% | 4.5% |
| Narrow Money (M1) Growth | 3.4% | 3.4% |
| Broad Money (M2) Growth | 5.5% | 6.1% |
| Third Party's Deposit Growth | 6.8% | 6.6% |
| Bank Loan Growth | 8.1% | 9.4% |
| Electronic Money Transaction Growth | 9.0% | 17.9% |
| Digital Banking Transaction Growth | -20.1% | 31.8% |
| ATM, Debit and Credit Card Transaction Growth | -3.4% | 8.3% |

Source: Bank Indonesia, SSI Research

Expect BI rate cuts in September or October

Bank Indonesia again decided to keep its benchmark interest rate at 5.75%, the fifth time in a row. This decision was made to maintain exchange rate stability, which felt some pressure from foreign capital outflow, at IDR 15,000 per USD. The foreign capital outflow itself was caused by the possibility of the Fed's terminal rate hike of 25 bps to 5.25% in July. In our opinion, however, the hike is not a done deal, and the Fed will wait for US inflation and labor market data (which will be released in the next three weeks) before making any concrete decision. Although maintaining exchange rate stability remains BI's main agenda, we noticed higher optimism from BI regarding inflation stability, though the El Niño threat (which is expected to start this month) might disturb the stability. Based on the data from the previous El Niños (2014-2016), we project food inflation and headline inflation hikes to 5-7% yoy and 4-4.3% yoy, respectively, in 3Q23. Therefore, we predict BI rate cuts will be started in September or October.

As widely expected, Bank Indonesia kept its benchmark interest rate at 5.75% in June (May: 5.75%; Cons May: & SSI: 5.75%). BI also kept deposit and lending facilities rates at 5% and 6.5%, respectively. This decision was made to maintain exchange rate stability, which felt some pressure from foreign capital outflow, at IDR 15,000 per USD (see Chart 1). To maintain exchange rate stability, BI will continue to rely on three policy instruments, namely i) direct intervention in the foreign exchange market, ii) twist operation through the sale of short-term INDOGBs (2-5Y) on the secondary market, and iii) foreign currency term deposit for export proceeds. We expect BI's foreign exchange market intervention to continue into the second week of July to combat the impact of foreign exchange market turmoil, which is expected to last a while as global market players continue to adjust their expectations of the probability of a Fed rate hike in July while waiting for the release of US PCE inflation data for May, US labor market data for June (unemployment rate and non-farm payrolls), as well as June's US CPI inflation data.

Although maintaining exchange rate stability remains BI's main agenda, we noticed higher optimism from BI regarding inflation stability. The optimism was boosted by the faster-than-expected disinflation in May, which pushed inflation down to 4% yoy (Apr: 4.33% yoy), the ceiling of BI's inflation target. However, Indonesia now has to face the challenge of the El Niño phenomenon, which is expected to take place this month ([Intensitas El Niño meningkat, BMKG ingatkan kekeringan terjadi hingga Oktober](#)). The last El Niño, which occurred in 2014-2016, caused a spike in inflation to 8.4% yoy, mainly due to the massive jump in food inflation to 11.4% yoy (see Chart 2). Considering the current conditions and the May food inflation (3.34% yoy), we project food inflation and headline inflation hikes to 5-7% yoy and 4-4.3% yoy, respectively, in 3Q23.

In light of the exchange rate volatility and El Niño, we believe that BI will only start its rate-cut cycle in September or October. We maintain our rate cut projection at 50 bps to 5.25%.

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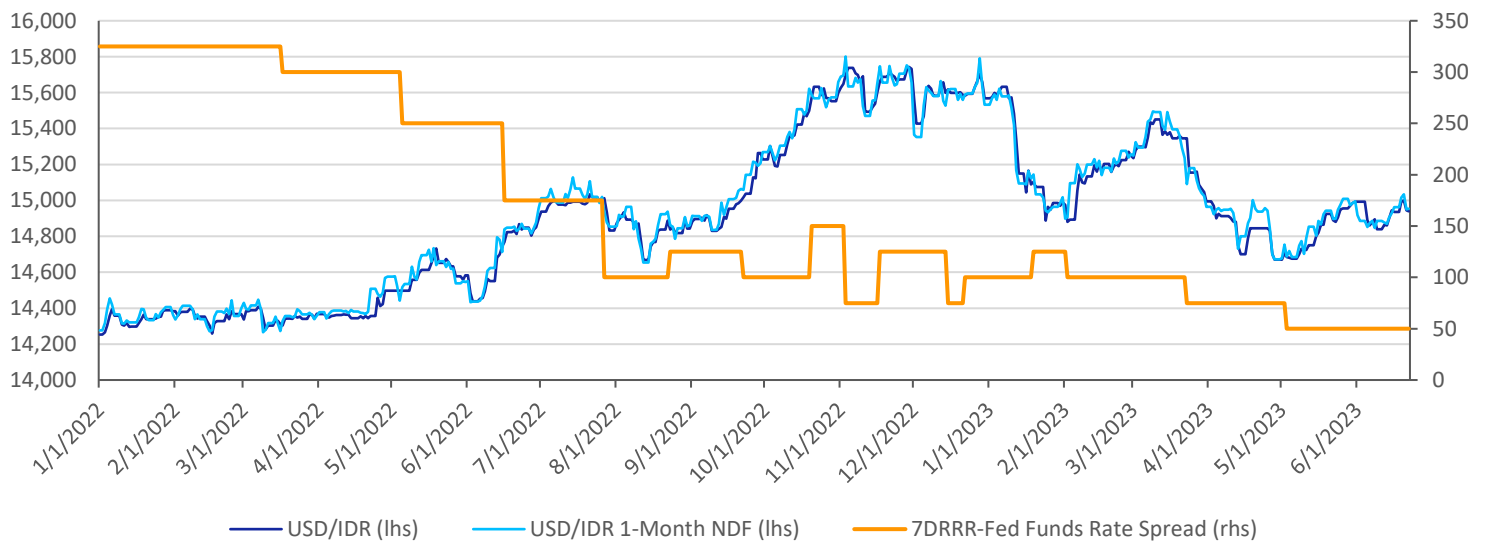
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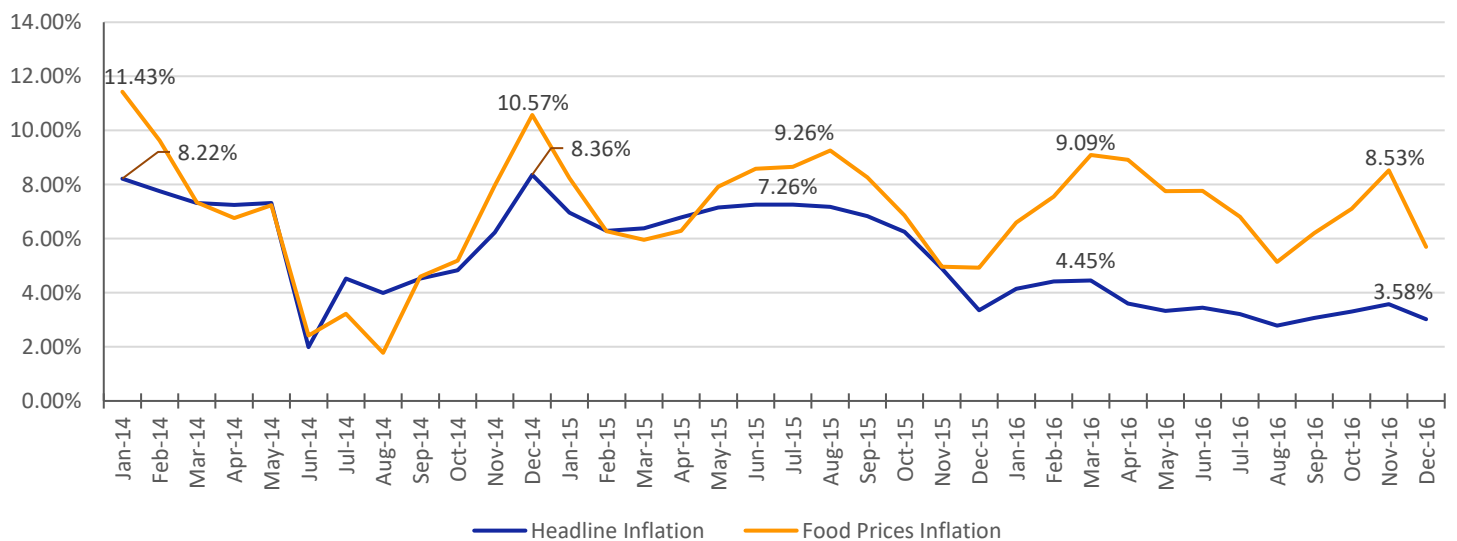
Table 1. SSI Macroeconomic Forecast Table

| 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 | 4.0 | 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. Correlation Between Rupiah Movement and Policy Rate Spread


Source: Bank Indonesia, Bloomberg, SSI Research

Chart 2. Indonesia's inflation level during 2014-2016 El Niño Phenomenon


Source: Bank Indonesia, SSI Research

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