

Indonesia Monetary Indicators

BI's Benchmark Rate and Forecasts	July	August
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	9-11%	9-11%
Money Supply and Banking Sector Indicators	June	July
Currency Growth	8.7%	4.1%
Narrow Money (M1) Growth	5.4%	N.A.
Broad Money (M2) Growth	6.1%	N.A.
Third Party's Deposit Growth	5.8%	6.6%
Bank Loan Growth	7.8%	8.5%
Electronic Money Transaction Growth	14.8%	10.5%
Digital Banking Transaction Growth	11.6%	15.5%
ATM, Debit and Credit Card Transaction Growth	3.0%	4.3%

Source: Bank Indonesia, SSI Research

BI will no longer use 'operation twist' as an exchange rate stabilization instrument

Bank Indonesia decided to hold its 7DRRR at 5.75% for 7 months in a row. The decision was made to maintain Rupiah stability amid global market turmoil. BI also announced its plans to issue SRBI (Bank Indonesia Rupiah Certificates) as an indirect exchange rate intervention instrument to replace 'operation twist'. We appreciate BI's decision to use a less distortive, more market mechanism-based instrument.

Bank Indonesia decided to hold its benchmark interest rate at 5.75% (Jul: 5.75%; Cons Aug: & SSI: 5.75%) for 7 months in a row. The decision was made to maintain Rupiah stability from strong depreciation pressure in August due to the deteriorating Chinese economic situation, which was exacerbated by the re-emergence of the debt default crisis in the property sector. In addition, the increasing possibility of the Federal Reserve delaying its rate cut cycle from 1Q24 to 2Q24 put even more pressure on Rupiah. At the moment, market players are still taking a wait-and-see approach in facing the Fed's interest rate policy. Fed chair Jerome Powell's speech on Friday morning (8/25) local time at the Jackson Hole Symposium will be the deciding factor for market participants in making expectations for the Fed's future policies. As of Tuesday (8/22) Rupiah had depreciated -1.93% mom to IDR 15,315 per USD.

Even so, BI reiterated its position not to use interest rate as a policy instrument in stabilizing Rupiah exchange rate. As an alternative, BI chooses direct intervention in the foreign exchange market, especially in the spot market and domestic non-deliverable forward (DNDF), and indirect intervention through the bond market.

BI's intervention through the bond market will be changed starting from September 15, from 'operation twist' (selling short-term SBN and buying long-term ones) to using a new instrument called Sekuritas Rupiah Bank Indonesia (SRBI). SRBI itself is a Rupiah-denominated, short-term money market instrument (1 week to 12 months) that uses BI's SBN as the underlying asset. SRBI is a scripless instrument and can be traded by domestic and foreign parties with a discount system. As of August 23, BI's SBN ownership reached IDR 901tn or 16.4% of the total SBN outstanding of IDR 5,491tn (see Table 1).

We welcomed the government's plan to issue SRBI since the instrument can help reduce signal distortions in the bond market. One of them is the yield spread between INDOGB 10Y Vs. 2Y, which fell to 25 bps on Thursday (8/24) from 48 bps on Tuesday (8/22) due to BI's efforts to boost Rupiah exchange rate to IDR 15,245 per USD through operation twist (see Chart 2). The decline in yield spread negatively affected market participants since the INDOGB 10Y Vs. 2Y yield spread also functions as an indicator of future economic growth prospects. The drop in yield spread might indicate market players' pessimistic sentiment towards Indonesia's economic prospects. Meanwhile, the sentiment towards 2H23 economic growth is more positive following the release of the higher-than-expected 2Q23 GDP growth data of 5.2% (Cons: 5%).

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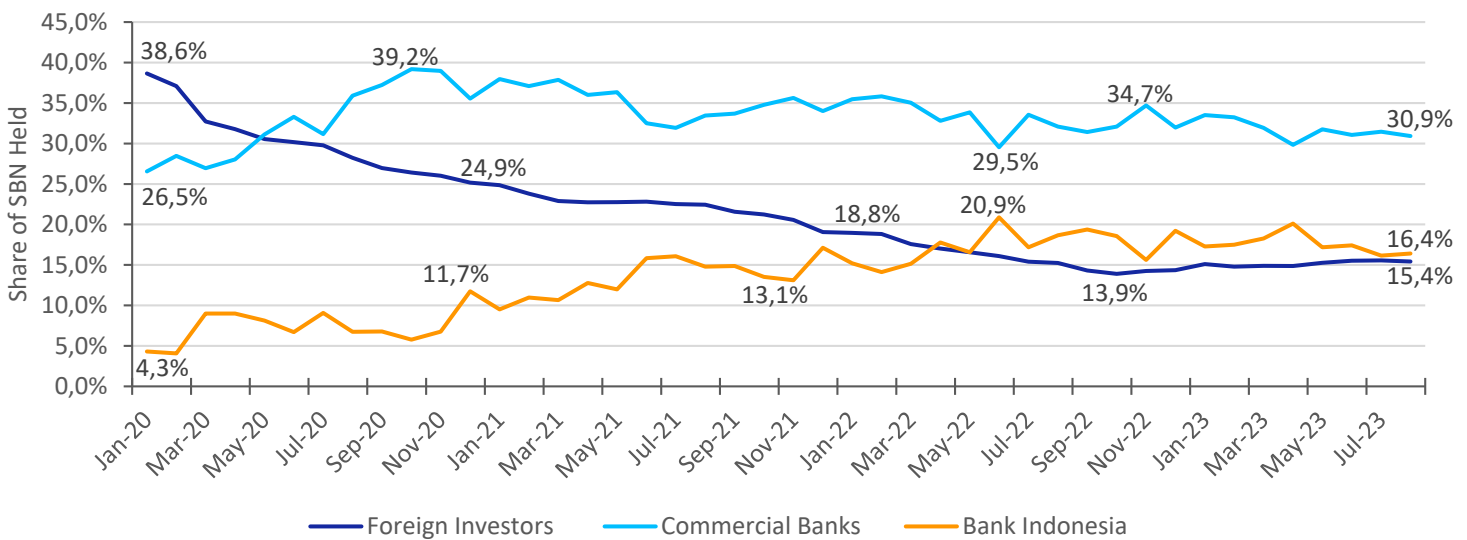
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Table 1. SSI Macroeconomic Forecast Table

Indicators (% yoy)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23F	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	FY22	FY23F	FY24F
Real GDP (NSA % qoq)	(0.9)	3.7	1.8	0.4	(0.9)	3.9	1.8	0.3	(0.9)	3.6	1.7	0.6			
Real GDP	5.0	5.5	5.7	5.0	5.0	5.2	5.1	5.1	5.1	4.8	4.8	5.0	5.3	5.1	4.9
Unemployment rate (% nsa)	5.8	5.8	5.9	5.9	5.5	5.5	5.4	5.3	5.2	5.1	5.1	5.0	5.9	5.3	5.0
Consumer price	2.6	4.4	6.0	5.5	5.0	3.5	2.4	2.6	2.7	3.1	3.3	3.3	5.5	2.6	3.3
Current account balance (% to GDP)	0.2	1.1	1.3	1.3	0.9	(0.6)	(1.5)	(1.2)	(1.2)	(1.3)	(1.5)	(1.7)	1.0	(0.6)	(1.4)
12M rolling sum	0.4	0.9	0.8	1.0	1.2	0.7	(0.1)	(0.6)	(1.1)	(1.3)	(1.3)	(1.4)			
Fiscal balance (% to GDP)	0.1	0.5	0.3	(2.4)	0.6	0.7	(1.3)	(2.3)	(0.4)	(1.0)	(1.5)	(2.3)	(2.4)	(2.3)	(2.3)
Policy rate, 7 day reverse repo rate (%)	3.50	3.50	4.25	5.50	5.75	5.75	5.75	5.50	5.00	4.50	4.25	4.25	5.50	5.50	4.25
10-year government bond yield (%)	6.74	7.22	7.37	6.94	6.79	6.26	6.50	6.20	6.00	5.80	5.70	5.60	6.94	6.20	5.60
Exchange rate (USD/IDR)	14,369	14,898	15,228	15,568	14,995	14,993	15,200	15,000	15,000	14,900	14,800	14,700	15,568	15,000	14,700

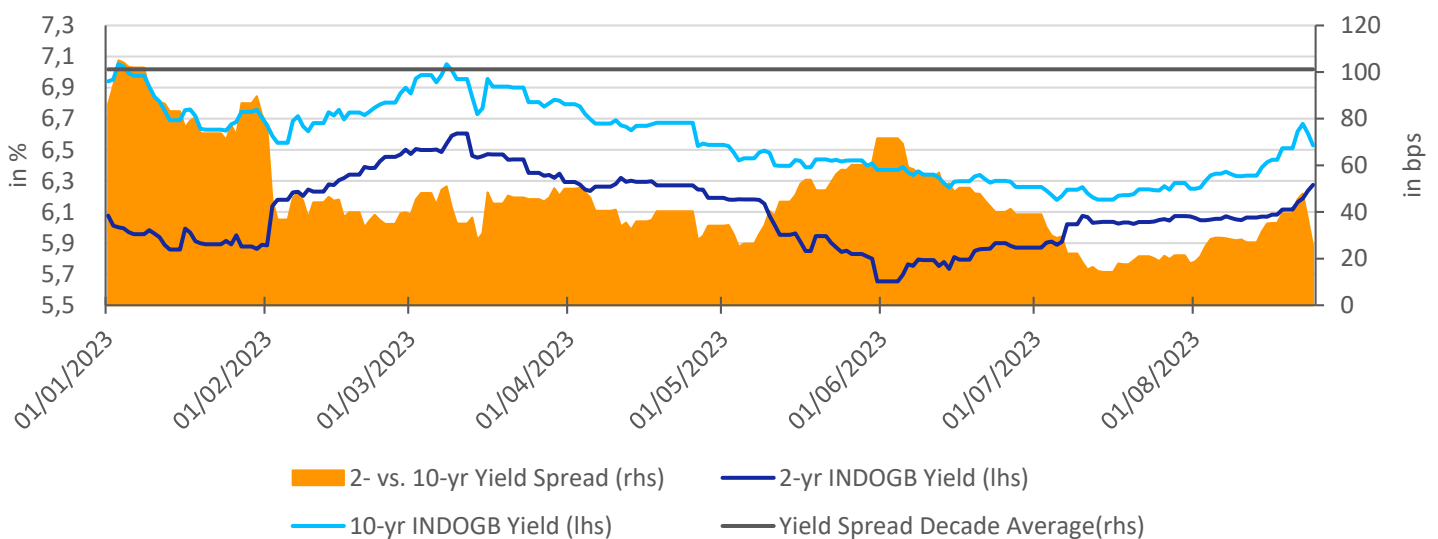
Source: SSI Research.

Chart 1. Distribution of Major SBN Holders During and After COVID-19 Pandemic



Source: DJPPR, SSI Research

Chart 2. SSI's Bond Market Perception Tracker on the Prospect of Domestic Economic Growth



Source: IDX, Bloomberg, SSI Research

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