

Indonesia Monetary Indicators

BI's Benchmark Rate and Forecasts	October	November
7 Day Reverse Repo Rate	6.00%	6.00%
Deposit Facility Rate	5.25%	5.25%
Lending Facility Rate	6.75%	6.75%
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	September	October
Currency Growth	6.2%	6.7%
Third Party's Deposit Growth	6.5%	3.4%
Bank Loan Growth	9.0%	9.0%
Sharia Financing Growth	14.7%	14.7%
MSMEs Loan Growth	8.3%	8.4%
Electronic Money Transaction Growth	10.3%	17.7%
Digital Banking Transaction Growth	12.8%	15.6%
ATM, Debit and Credit Card Transaction Growth	-4.9%	-3.5%

Source: Bank Indonesia, SSI Research

Rupiah stability is BI's priority

- As widely expected, Bank Indonesia decided to hold its 7DRRR at 6% (Oct: & Cons: 6%), after considering the lower-than-expected 3Q23 current account deficit.
- However, we believe that BI might raise the 7DRRR in December or the first half of 1Q24 if the current account deficit widens, which might lead to a major Rupiah depreciation.
- A wider current account deficit is the main risk in 2024 due to economic overheating based on the Hodrick-Prescott analysis, referring to the previous economic overheating in 2017-2019.

BI's Board of Governors Meeting decided to hold its 7DRRR at 6%, in line with consensus (Oct: & Cons: 6%; SSI: 6.25%). Initially, we predicted that BI would raise its 7DRRR. However, the chances of a hike fell considerably following the release of the lower-than-expected 3Q23 current account deficit data of USD -859.6mn (2Q23: USD -2.21bn; Cons: USD -1.82bn; SSI: USD -2bn). However, we believe that BI might raise the 7DRRR in December or the first half of 1Q24 if Rupiah depreciates to IDR 15,700-15,900 per USD due to a wider current account deficit (see our projections in Table 1).

In our opinion, Indonesia will still face the risk of exchange rate volatility in 2024 in the form of overshooting. This assessment is based on the Hodrick-Prescott analysis, which shows symptoms of economic overheating (see Chart 1). Based on the previous overheating in 2017-2019, this situation led to a spike in the current account deficit from -0.8% of GDP in 1Q17 to -3.7% in 4Q18, even though GDP growth was relatively stable at 5-5.3% yoy (see Chart 2). As a result of this incident, the Rupiah exchange rate overshooted between January and October 2018, and the overshoot only ended in February 2019 as the Rupiah moved to IDR 14,000-14,200 per USD (see Chart 3).

Even with the risk of overshooting in 2024 due to the possibility of a budget deficit of -0.9% of PDB, we believe that the risk can still be overcome by BI and the Ministry of Finance through tight control over monetary and fiscal stimulus policies during the 2024 elections which will last until June 2024 (assuming a 2-round election). Control over fiscal stimulus can be maintained by keeping the FY23 budget deficit at -2% of GDP or even lower. Also, a FY24 budget deficit target of -2.29% (the lower the better) will also be enough. From the monetary side, we project that BI's rate cuts will be lower than the Fed's, by 50 bps to 5.75% in FY24 (Vs. Fed 100 bps to 4.5%) and 75 bps in FY25 (Vs. Fed 150 bps to 3%). In our view, the lower rate cuts are crucial to widen the policy rate spread to 200-250 bps from its current position of 50 bps. This is important to anticipate the narrowing of the inflation gap between BI and the Fed in the future (see Chart 4).

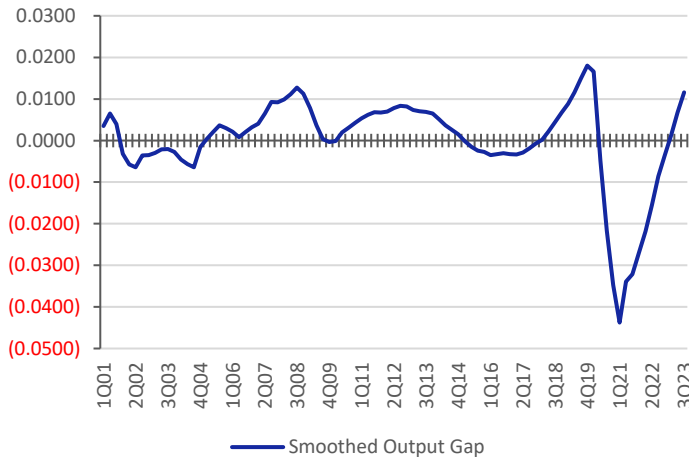
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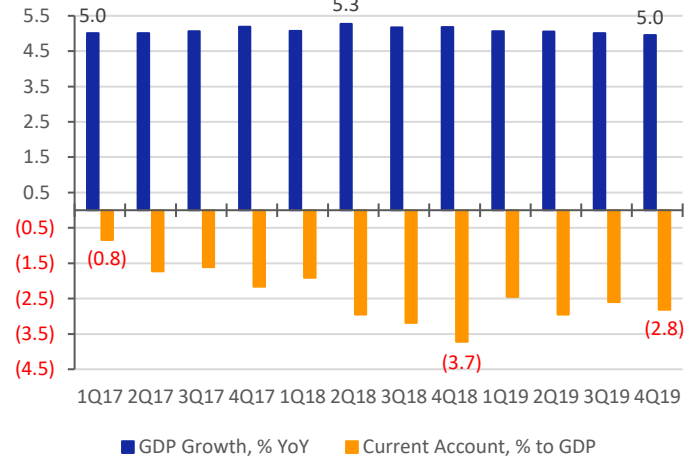
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Chart 1. Hodrick-Prescott Filter Analysis



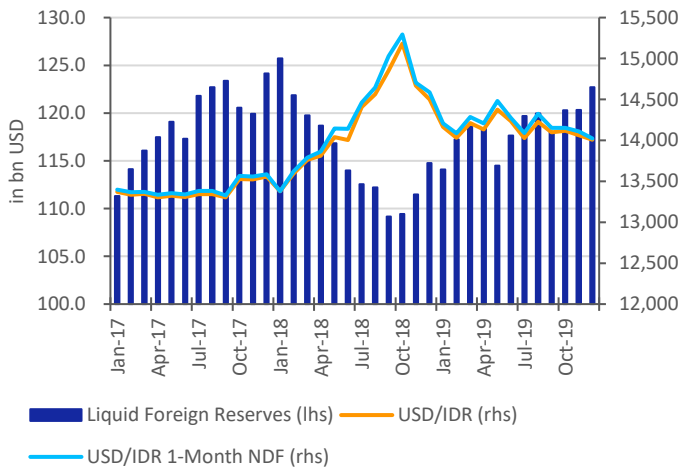
Source: BPS, SSI Research

Chart 2. Indonesia's Latest Overheating Experience (1)



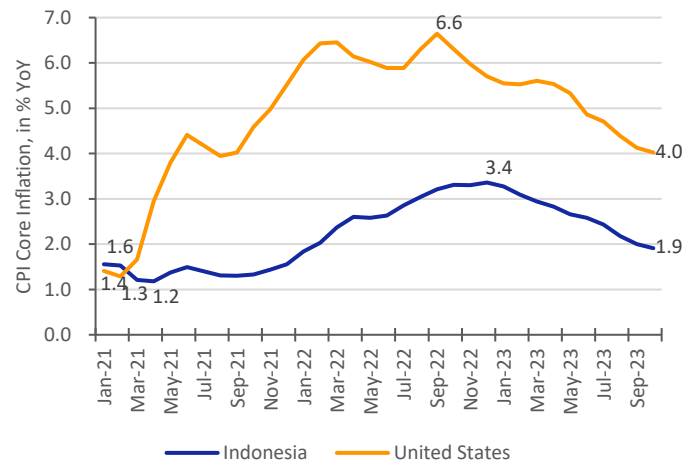
Source: BI, BPS, SSI Research

Chart 3. Indonesia's Latest Overheating Experience (2)



Source: BI, Bloomberg, SSI Research

Chart 4. Indonesia-US Core Inflation Gap



Source: BPS, SSI Research

Table 1. SSI's Forecast Table

Indicators (% yoy)	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	FY22	FY23F	FY24F
Real GDP (NSA % qoq)	1.8	0.4	(0.9)	3.9	1.6	0.3	(0.9)	3.6	1.7	0.6			
Real GDP	5.7	5.0	5.0	5.2	4.9	4.9	4.9	4.7	4.7	5.0	5.3	5.0	4.8
Unemployment rate (% nsa)	5.9	5.9	5.5	5.5	5.3	5.3	5.2	5.1	5.1	5.0	5.9	5.3	5.0
Consumer price	6.0	5.5	5.0	3.5	2.3	2.6	2.7	3.1	3.3	3.3	5.5	2.6	3.3
Current account balance (% to GDP)	1.3	1.3	0.9	(0.6)	(0.3)	(0.6)	(0.8)	(0.9)	(0.8)	(1.0)	1.0	(0.2)	(0.9)
12M rolling sum	0.8	1.0	1.1	0.7	0.3	(0.2)	(0.6)	(0.7)	(0.8)	(0.9)			
Fiscal balance (% to GDP)	0.3	(2.4)	0.6	0.7	0.3	(2.0)	(0.4)	(1.0)	(1.5)	(2.3)	(2.4)	(2.0)	(2.3)
Policy rate, 7DRRR (%)	4.25	5.50	5.75	5.75	5.75	6.25	6.25	6.25	6.00	5.75	5.50	6.25	5.75
10-year gov't bond yield (%)	7.37	6.94	6.79	6.26	6.91	7.00	7.00	6.90	6.70	6.30	6.94	7.00	6.30
Exchange rate (USD/IDR)	15,228	15,568	14,995	14,993	15,455	15,600	15,500	15,400	15,400	15,500	15,568	15,600	15,500

Source: SSI Research

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