

## Indonesia Monetary Indicators

BI's Benchmark Rate and Forecasts	November	December
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	October	November
Currency Growth	6.7%	5.7%
Third Party's Deposit Growth	3.4%	3.0%
Bank Loan Growth	9.0%	9.7%
Sharia Financing Growth	14.7%	14.1%
MSMEs Loan Growth	8.4%	8.5%
Electronic Money Transaction Growth	17.7%	17.0%
Digital Banking Transaction Growth	15.6%	13.2%
ATM, Debit and Credit Card Transaction Growth	-3.5%	-0.4%

Source: Bank Indonesia, SSI Research

## BI chooses to hold its policy rate amid the dovish pivot euphoria

- As widely expected, Bank Indonesia decided to hold its BI Rate at 6% (Nov: & Cons: 6%).
- Although the decision is in line with BI Governor's statement at the BI Annual Meeting last November (11/29), we believe that BI will adopt a more dovish monetary policy stance in 2024, considering the dovish signal sent by the Fed and the global dovish pivot euphoria.
- We expect BI to cut its BI Rate by 75 bps to 5.25% in 2024, lower than the Fed's projected rate cut (150 bps to 4%).

As widely expected, Bank Indonesia decided to hold its BI Rate (7DRRR) at 6% (Nov: & Cons: 6%), in line with the statement of BI Governor Perry Warjiyo at the 2023 Bank Indonesia Annual Meeting on November 29, 2023. During the event, Governor Perry emphasized his plan to hold the BI rate at 6% until 2025 to maintain macro stability, especially the Rupiah exchange rate. ([Janji tahan suku bunga sampai 2025, BI keluarkan 4 jurus](#)).

In light of the recent Rupiah movements and the increase in BI's foreign exchange reserves increase in the last two months (see Chart 1), we expect BI to adopt a more dovish stance. The Fed's decision to increase the projected size of the FFR cut in 2024 to 75 bps (Prev: 50 bps) will also affect BI's monetary policy.

Considering the ongoing global dovish pivot euphoria, we project BI to cut its BI Rate by 75 bps to 5.25% in 2024. This projection is based on the assumption that the Fed will adopt a more conservative dovish pivot scenario, which involves starting the FFR cut in 2Q24 (May) with a total cut of 6X25 bps to 4% (see Chart 2).

Our decision to adopt a more conservative dovish pivot scenario is based on the estimated average US monthly headline and core PCE inflation rate of 0.2% mom in 2024. In this scenario, we expect US inflation to stabilize at 2.4-2.6% yoy in 2024. Meanwhile, the dovish pivot scenario currently adopted by global market players (Fed starts its rate cuts in March) is more aggressive, since it assumes an average monthly inflation rate of 0.15% mom (see Chart 3).

Aside from considering the global dovish pivot euphoria, we are also paying attention to Indonesia's external balance, including the possibility of a current account deficit widening to -0.9% of GDP in 2024, due to the potential decline in commodity exports in 2024 as economic recession hit several countries, including Japan and a number of Eurozone countries. Facing this situation, BI needs to widen its policy rate spread with the Fed's, from its current position of 50 bps to 125 bps, by cutting its policy rate. With these steps, we project Rupiah to stabilize at IDR 15,400-15,600 per USD in 2024 (see Chart 4).

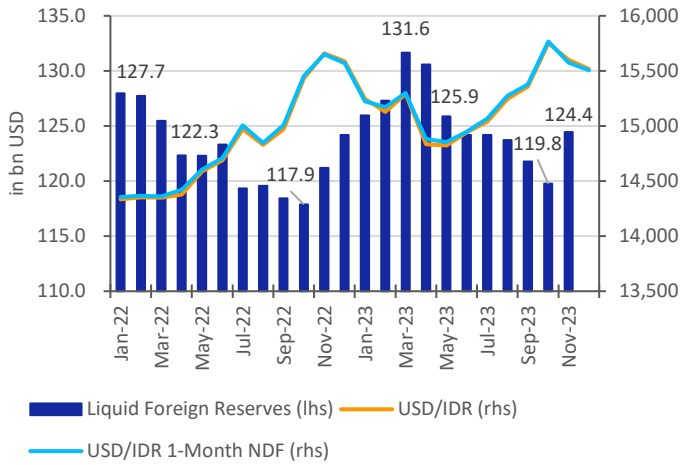
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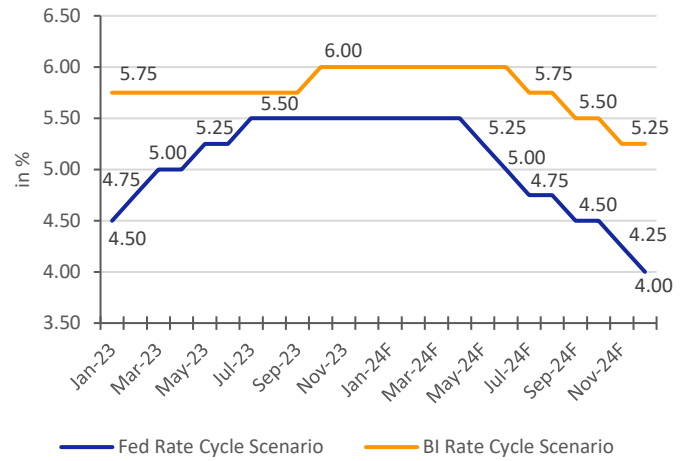
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**Chart 1. Rupiah Movement and BI's Foreign Reserves Position**



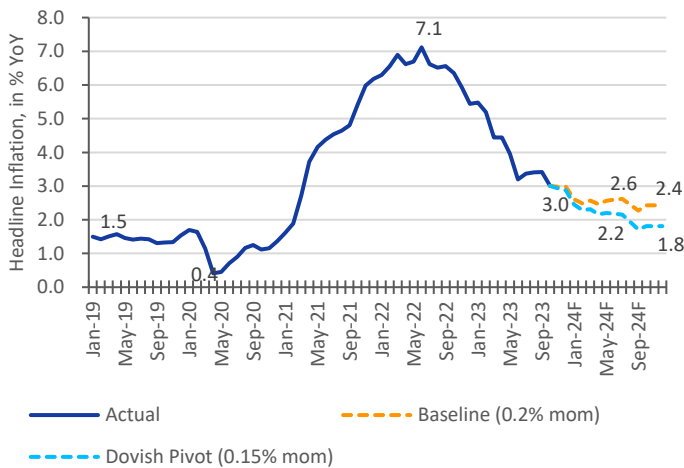
Source: BI, Bloomberg, SSI Research

**Chart 2. SSI's The Fed and BI Rate Projection**



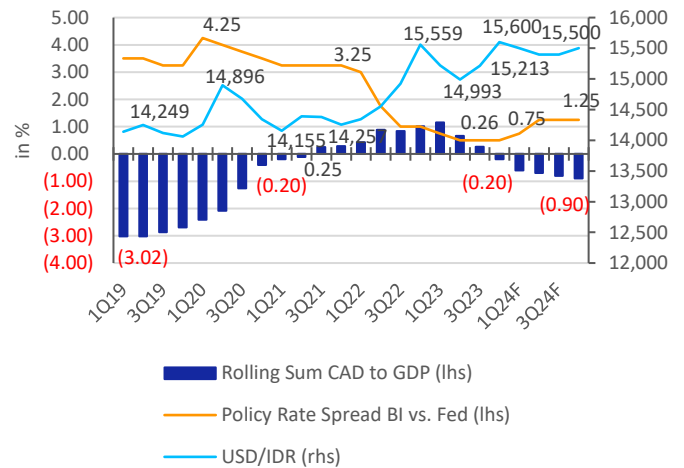
Source: BI, CME Group, Federal Reserve, Bloomberg, SSI Research

**Chart 3. SSI's US PCE Inflation Projection**



Source: BEA, Bloomberg, SSI Research

**Chart 4. SSI's Projection on Indonesia's External Balance**



Source: BI, CME Group, The Fed, Bloomberg, 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	2.8	2.9	3.3	3.6	3.4	5.5	2.8	3.4
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	6.00	6.00	6.00	5.50	5.25	5.50	6.00	5.25
10-year gov't bond yield (%)	7.37	6.94	6.79	6.26	6.91	6.80	6.70	6.70	6.20	6.00	6.94	6.80	6.00
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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