

## MACRO STABILITY FOCUS POLICY RATE WITH NEW FOREX INSTRUMENT

Bank Indonesia raised its benchmark interest rate (BI7DRRR) by 25bps to 5.50% in Dec '22, largely in-line with market expectation and thus maintaining the interest rate differential with the Fed Rate at 100bps. BI's considerations for this softer 25bps hike are: a) Rupiah's stability over the past month driven by the USD3.80 bn increase in foreign exchange reserves; b) the decrease in Nov '22 headline and core inflation of 5.42% and 3.30% (yoy); and c) well-maintained domestic liquidity demonstrated by 14.9% and 9.8% (yoy) increase in M1 and M2 as well as the solid credit disbursement of 11.6% (yoy) in Nov '22.

In addition, BI continues to pursue a policy of Rupiah stabilization going forward, in order to maintain imported inflation pressure and to maintain the attractiveness of domestic asset portfolios. This is seen from the continuation of several policies such as 1) intervention in the spot, DNDF and purchase-sale (operation twist) SBN in the secondary market; 2) strengthening financial structure in the country; 3) resuming the purchase of SBN in the primary market; 4) continuing special incentives for priority sectors; and 5) transparent publication of banks' base-lending rate (SBDK) as well as encouraging further efficiency in the domestic payment system. In addition, BI issued new foreign exchange instruments to encourage the transition from DHE with competitive return. This is a form of macroprudential policy in line with the increase in the foreign exchange guarantee rate by LPS of 100 bps to 1.75% from 9th Dec '22 to 31st Jan '23.

BI's decision should serve as a positive catalyst for Indonesia's financial market which followed by BI's commitment to maintain liquidity in the domestic market along with incentives for certain priority sectors (KUR and green economy). In addition, market should appreciate BI's effort to encourage the absorption of foreign portfolio funds into short-term SBNs.

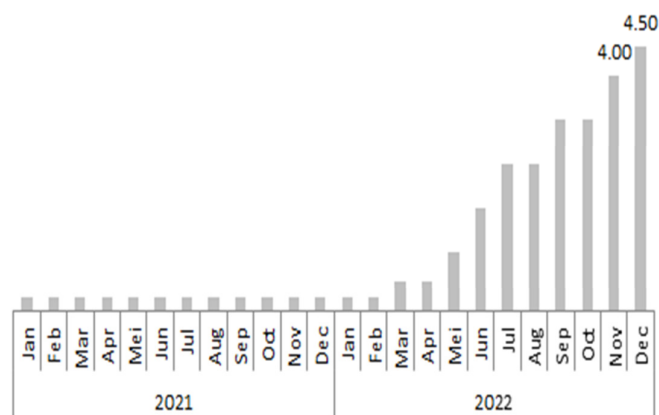
However, with the continued expectation of global economic volatility, we still anticipate BI to continue to raise the BI7DRRR in the first semester of 2023, albeit with more limited hike. This is also helped by the more benign inflation expectations for 2023, given the softer second round effects of the Sep '22 fuel price increase and the lower commodity price expectations for 2023.

Table 1. Interest Rate Data

Indicators	22-Dec-22		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
<b>Policy Rate (in %)</b>				
United States	4.50	4.00	50.00	425.00
European Union	2.50	2.00	50.00	250.00
United Kingdom	3.50	3.00	50.00	325.00
Japan	-0.10	-0.10	0.00	0.00
China	3.65	3.65	0.00	(15.00)
India	6.25	5.90	35.00	225.00
Thailand	1.25	1.25	0.00	75.00
Philippines	5.50	5.00	50.00	350.00
Indonesia	5.50	5.25	50.00	200.00
<b>Global Monetary Policy Change (in number of countries)</b>				
Easing	0	1		
Unchanged	18	7		
Tightening	29	19		
<b>Average International Interest Rate (in %)</b>				
USD LIBOR - Overnight	3.93	3.74	19.33	385.73
USD LIBOR - 1 Month	4.27	3.94	33.00	416.80
USD LIBOR - 3 Months	4.74	4.65	9.20	448.50
USD LIBOR - 6 Months	5.17	5.12	5.10	474.10
USD LIBOR - 12 Months	5.49	5.56	(6.70)	473.10
<b>Domestic Interbank Money Market (in %)</b>				
INDONIA	4.82	4.50	31.17	203.10
JIBOR - 1 Month	5.95	5.65	29.79	292.59
JIBOR - 3 Months	6.31	5.87	43.94	311.93
JIBOR - 6 Months	6.45	6.10	34.18	311.70
JIBOR - 12 Months	6.70	6.40	29.87	323.12

Sources : Each Central Bank, Globalrates, treated (2022)

Fig 1. Fed Rate



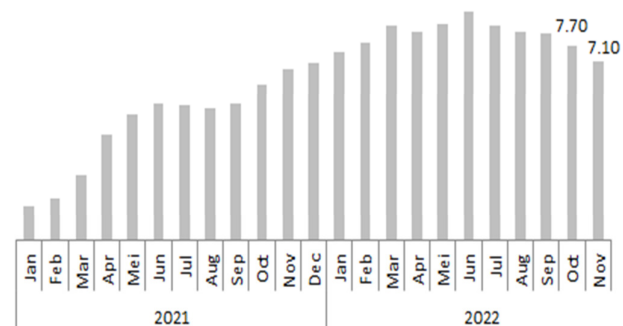
Source: Bank Indonesia – treated (2022)

Fig 2. BI7DRRR



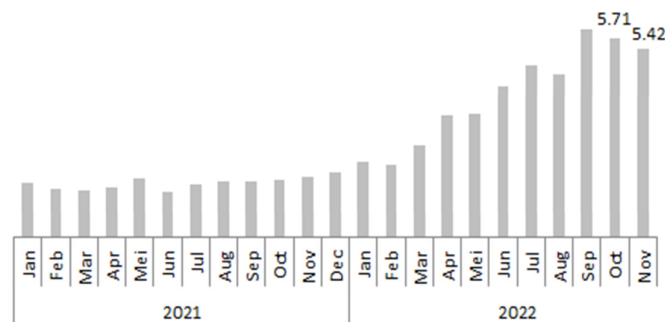
Source: Bank Indonesia – treated (2022)

Fig 3. US CPI Inflation



Source : BLS – treated (2022)

Fig 4. Indonesia CPI Inflation



Source : BPS – treated (2022)

Fig 5. Fed Rate Probabilities, as of 21 December 2022

MEETING DATE	Target Rate (in bps)							
	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
01-Feb-23	0.00%	0.00%	0.00%	0.00%	69.00%	31.00%	0.00%	0.00%
22-Mar-23	0.00%	0.00%	0.00%	0.00%	28.30%	53.40%	18.30%	0.00%
03-May-23	0.00%	0.00%	0.00%	0.00%	21.20%	47.20%	27.00%	4.60%
14-Jun-23	0.00%	0.00%	0.00%	0.70%	22.10%	46.50%	26.30%	4.40%
26-Jul-23	0.00%	0.00%	0.20%	6.80%	29.10%	40.70%	20.00%	3.10%
20-Sep-23	0.00%	0.10%	2.50%	14.40%	33.00%	33.70%	14.30%	2.10%
01-Nov-23	0.00%	1.20%	8.30%	23.60%	33.40%	24.10%	8.30%	1.10%
13-Dec-23	0.90%	6.20%	19.00%	30.40%	26.90%	13.10%	3.20%	0.30%

Source : CME Group, treated (2022)

Table 2. Meeting Calendar The Fed (FOMC) and Bank Indonesia (RDG-BI) In 2023

No	Month	FOMC Meeting	RDG-BI
1	January		18-19 January 2023
2	February	31 January-1 February 2023	15-16 February 2023
3	March	21-22 March 2023	15-16 March 2023
4	April		18-19 April 2023
5	May	2-3 May 2023	24-25 May 2023
6	June	13-14 June 2023	21-22 June 2023
7	July	25-26 July 2023	24-25 July 2023
8	August		23-24 August 2023
9	September	19-20 September 2023	20-21 September 2023
10	October		18-19 October 2023
11	November	31 October-1 November 2023	22-23 November 2023
12	December	12-13 December 2023	20-21 December 2023

Sources : The Fed and Bank Indonesia (2022)

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