

MNI Bank Indonesia Preview - November 2022

Meeting Date: Thursday, 17 November 2022

Announcement Time: 07:20 GMT/14:20 WIB

Link To Statement: <https://www.bi.go.id/en/statistik/indikator/bi-7day-rr.aspx>

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MNI POV (Point Of View): Another 50bp To Support IDR

Bank Indonesia (BI) hiked rates by 50bp for a second consecutive meeting in October to 4.75%. Again, the statement said that the Bank needed to move pre-emptively to stabilise the IDR, for financial stability, and as already strong domestic growth was rising further. It also reiterated that it needed to bring core inflation back to target but in the October statement there was added urgency as the time frame was brought forward to H1 2023 from H2 2023. These issues are again likely to be at the centre of the BI's discussion at its November 17 meeting where rates are likely to be hiked a further 50bp to 5.25%, the highest since September 2019.

Economists generally expect a 50bp hike at the November meeting but 8 of the 28 surveyed by Bloomberg expect a lower 25bp. The moderation in October headline CPI inflation and the slight appreciation of the USDIDR in recent days suggest that the risks to the 50bp forecast are skewed to the downside.

The focus of the central bank is on underlying inflation, as it not only mentioned that it needed to return to the 2-4% target band in the first paragraph of its last statement, but it has said previously that it will only react to second-round price effects. October headline CPI inflation moderated to an elevated 5.7% y/y rate from 6% the previous month, as food prices fell. While core inflation rose, it was only slightly to 3.3% from 3.2% and signalled that price pressures were fairly stable, as so far there has been limited pass through of fuel price adjustments. But core inflation is expected to rise further over the months ahead, as the risk of second-round effects is not yet behind us.

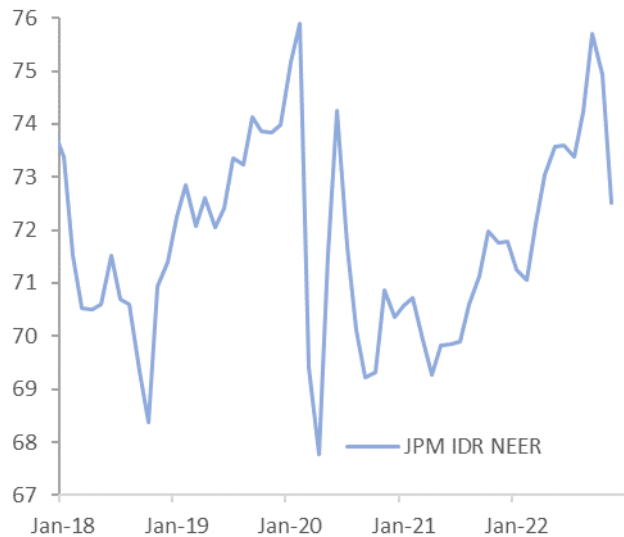
Figure 1: Indonesia CPI y/y%



Source: MNI – Market News/Refinitiv

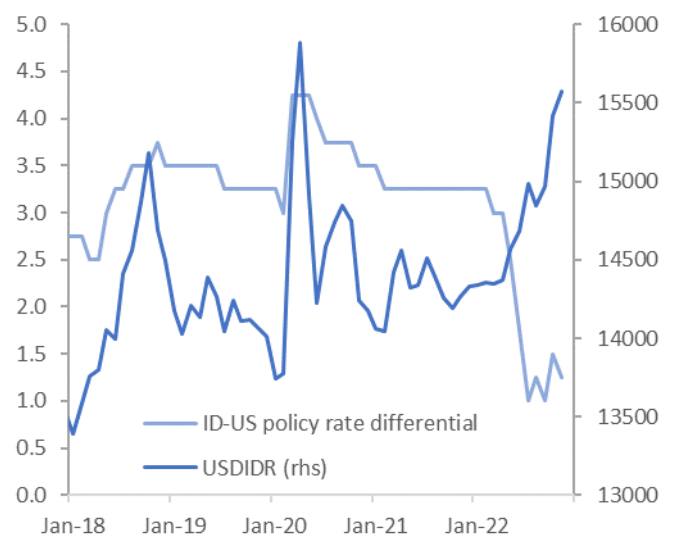
Preserving stability of external funding and containing imported inflation are priorities for BI and until last month the IDR had been stronger against its main trading partners but the November average of the NEER is down over 4% since September. So, currency weakness in the last month has not just been against the USD. Despite a slight appreciation over the last few days due to a weaker USD after the lower-than expected US CPI, USDIDR is close to the levels seen around the time of the last meeting. Thus, it is unlikely that recent currency moves would be enough for the BI to pivot to 25bp. A 50bp hike this month would still result in the rate differential with the US narrowing. Even if the Fed slows to 50bp at its December 14 meeting, which is expected, then another 50bp move by Indonesia would be needed to keep the rate differential stable.

Figure 2: IDR weaker against currency basket



Source: MNI – Market News/Refinitiv/JP Morgan

Figure 3: Rate differential driving weaker USDIDR



Source: MNI – Market News/Refinitiv
*Nov rate differential uses consensus for BI rate

BI has continued to work towards increasing short-term rates relative to longer term to attract foreign investors in its “Operation Twist” programme. Given recent currency and Fed developments, a further 50bp rate hike would be needed to maintain the effectiveness of the programme, which was mentioned again as a part of BI’s policy mix in the October statement.

Indonesian GDP grew 5.7% y/y in Q3 up from 5.4% y/y with the strength broad based as domestic demand rose 4.8% y/y and net exports contributed 1.0pp. The S&P Global manufacturing PMI for October continued to signal positive output growth at 51.8 but slowed from 53.7 on the back of global headwinds. The solid growth situation allows the BI to focus on inflation and currency stabilisation and thus hike again by an outsized amount.

Given continued inflation concerns, currency weakness and robust growth backdrop, Bank Indonesia is likely to hike rates by 50bp again at its November meeting. The fact that BI has said that it wants to be pre-emptive and forward-looking supports this. A smaller move would also see the Indonesian-US rate differential narrow by more putting further pressure on the IDR. But darkening global growth clouds could be enough for the central bank to slow tightening at its December 22 meeting and only hike by 25bp.

Bank Indonesia October 20 2022 Meeting Statement

The BI Board of Governors agreed on 19th and 20th October 2022 to raise the BI 7-Day Reverse Repo Rate (BI7DRR) by 50bps to 4.75%, while also raising the Deposit Facility (DF) and Lending Facility (LF) rates by 50bps to 4.00% and 5.50% respectively. The decision to raise the policy rate was taken as a front-loaded, pre-emptive and forward-looking measure to lower overshooting inflation expectations and return core inflation to the 3.0%±1% target corridor in the first half of 2023, while simultaneously strengthening exchange rate stabilisation policy in line with the rupiah's fundamental value in response to broad-based US dollar appreciation and elevated global financial market uncertainty amid strong and increasing domestic demand.

Bank Indonesia also continues to strengthen its policy mix response to maintain stability and strengthen economic recovery as follows:

1. Strengthening monetary operations by increasing the interest rate structure in the money market in accordance with the higher BI 7-Day Reverse Repo Rate (BI7DRR) to lower inflation expectations and return core inflation to the target.
2. Strengthening rupiah stabilisation policy as part of the measures to control inflation, primarily imported inflation, through foreign exchange market intervention, including spot and DNDF transactions, as well as buying/selling SBN in the secondary market.
3. Continue buying/selling SBN in the secondary market to strengthen transmission of the BI7DRR by increasing the attractiveness of SBN yields for foreign portfolio investment inflows to strengthen exchange rate stabilisation measures.
4. Maintaining accommodative macroprudential policy to revive bank lending to businesses by:
 - i. holding: (a) the countercyclical capital buffer (CCyB) at 0%, (b) Macroprudential Intermediation Ratio (MIR) in the 84-94% range, and (c) Macroprudential Liquidity Buffer (MPLB) at 6% with repo flexibility of 6% and sharia MPLB at 4.5% with repo flexibility of 4.5%,
 - ii. Maintaining looser Loan/Financing-to-Value (LTV/FTV) ratios on property loans/financing to a maximum of 100% on all property types (landed houses, apartments and shop/office house) for banks meeting specific NPL/NPF criteria, to revive credit growth in the property sector in line with risk management and prudential principles, effective from 1st January 2023 to 31st December 2023, and
 - iii. Maintaining looser down payment requirements on automotive loans/financing at 0% for all types of new motor vehicle in order to revive credit growth in the automotive sector, while applying risk management and prudential principles, effective from 1st January 2023 to 31st December 2023.
5. Maintaining prime lending rate (SBDK) transparency policy in the banking industry with a focus on the assessment of policy rate transmission to interest rates on new loans in the banking industry (Appendix).
6. Strengthening payment system policy through digitalisation of the banking industry and non-bank financial institutions by expanding the participation, ecosystem and utilisation of BI-FAST, while accelerating the adoption of National Open API Payment Standards (SNAP) for banks and non-banks.
7. Strengthening international cooperation with other central banks and financial authorities, promoting trade and investment in priority sectors in synergy with other relevant institutions as well as ensuring the success of the six priority agendas in the Finance Track of Indonesia's G20 Presidency, specifically at the G20 Leaders' Summit in November 2022.

Policy coordination among the central government, regional governments, and strategic partners within the Central and Regional Inflation Control Teams (TPIP and TPID) is constantly strengthened through the effective implementation of National Movement for Food Inflation Control (GNPIP) in various regions. Policy synergy between Bank Indonesia and government fiscal policy, as well as with the Financial System Stability Committee, is also being strengthened to maintain macroeconomic and financial system stability, while reviving lending to businesses in priority sectors to stimulate economic growth and exports, while increasing economic and financial inclusion.

Global economic is prone to moderation, accompanied by intense inflationary pressures and global financial market uncertainty. After improving in 2022, global economic growth in 2023 is expected to decelerate further than previously expected, with the risk of recession in several countries. Economic growth has been revised down in several advanced economies, particularly the United States (US) and Europe, and also in China. Global economic moderation stems from ongoing geopolitical tensions that have triggered economic, trade and investment fragmentation, and prompted more aggressive tightening of monetary policy. The contagion effect of global economic fragmentation is also expected to undermine emerging market economies (EME). Meanwhile, intense

inflationary pressures and high core inflation globally due to supply chain disruptions have spurred more aggressive monetary policy tightening. A higher for longer federal funds rate (FFR) is strengthening the US dollar, thus inducing depreciatory pressures in various economies, including Indonesia. Currency pressures are escalating with increasing global financial market uncertainty, thus exacerbating investment portfolio outflows from EMEs, including Indonesia.

At home, the national economic recovery remains intact. Third-quarter gains are projected for the domestic economy on the back of increasing non-building investment and private consumption, persistently solid exports and maintained public purchasing power despite higher inflation. Several early indicators in September 2022 and the latest surveys conducted by Bank Indonesia, namely consumer confidence, retail sales and the Manufacturing Purchasing Managers Index (PMI), confirm that the **domestic economic recovery process remains intact**. Externally, solid export performance is expected to persist, specifically in terms of coal, crude palm oil (CPO) as well as iron and steel, in line with strong demand in key trading partners and government policy to stimulate exports of CPO and its derivatives. Spatially, positive export performance was supported by all regions, especially Kalimantan and Sumatra. Furthermore, national economic improvements were also reflected in the main economic sectors, namely trade, mining and agriculture. Consequently, economic growth in 2022 is projected with a bias towards the upper bound of Bank Indonesia's 4.5-5.3% projection. Meanwhile, strong economic growth is still projected for 2023 on the back of solid domestic demand given increasing mobility and the completion of various national strategic projects despite deeper global economic moderation.

Indonesia's Balance of Payments (BOP) remains sound in line with persistently strong non-oil and gas export performance. Similar to conditions in the previous period, the current account is projected to maintain a surplus in line with the USD14.9 billion trade surplus. Meanwhile, pressures on foreign capital flows are increasing, primarily in the form of portfolio investment, due to elevated global financial market uncertainty. Portfolio investment is expected to record a net outflow of USD2.1 billion in the third quarter. The position of reserve assets in Indonesia at the end of September 2022 stood at USD130.8 billion, equivalent to 5.9 months of imports or 5.7 months of imports and servicing government external debt, which is well above the 3-month international adequacy standard. Despite global financial market uncertainty, which is expected to remain high, BOP performance in 2022 will be maintained with a positive current account in the 0.4-1.2% of GDP range, coupled with a sound capital and financial account that is dominated by foreign direct investment (FDI). Strong BOP performance is projected in 2023, supported by a solid current account along with capital and financial account, notwithstanding the persistent risk of uncertainty blighting global financial markets.

Rupiah stability has been maintained despite increasing global financial market uncertainty and US dollar appreciation. The US Dollar (DXY) Index peaked at 114.76 on 28th September 2022 and stood at 112.98 on 19th October 2022, increasing 18.10% (ytd) in 2022. As of 19th October 2022, the rupiah depreciated 8.03% (ytd) on the level recorded at the end of 2021, which is nevertheless comparatively lower than the currency depreciation experienced in other peer countries, such as India (10.42%), Malaysia (11.75%) and Thailand (12.55%). Depreciation is in line with the strong US dollar and increasing global financial market uncertainty caused by aggressive monetary policy tightening in several jurisdictions, particularly the US, in response to inflationary pressures and concerns stoked by global economic moderation, despite the positive perception of Indonesia's economic outlook. Moving forward, Bank Indonesia will continue to monitor the supply of foreign exchange and strengthen rupiah stabilisation policy in line with market mechanisms and the currency's fundamental value in order to support measures to manage inflation and maintain macroeconomic stability.

Inflation is lower than initially projected. The Consumer Price Index (CPI) in September 2022 stood at 5.95% (yoy), up from 4.69% (yoy) the month earlier, after fuel prices were adjusted. Inflation in September 2022 was lower than previously projected because the impact of fuel price hikes on volatile food and administered prices was weaker than initially forecast. Volatile food (VF) inflation of 9.02% (yoy) is in line with close policy coordination and synergy through the TPIP-TPID inflation control teams and National Movement for Food Inflation Control (GNPIP), which aim to safeguard supply availability, orderly distribution, price stability and effective communication. The increase in administered prices (AP) inflation was also lower than previously expected, namely 13.28% (yoy), in line with lower adjustments to fuel prices and transportation tariffs. Meanwhile, low core inflation was maintained at 3.21% (yoy) given the weaker second-round effect of fuel price adjustments, coupled with mild inflationary pressures from the demand side. Notwithstanding overshooting inflation expectations in the Consensus Forecast, the Cost of Living Survey in the second week of October projected lower inflation in October than in September 2022. Based on such developments, Bank Indonesia expects lower inflation in 2022 than previously projected, despite still exceeding the upper limit of the 3.0%±1% target. Policy synergy between the central/regional government and Bank Indonesia will be strengthened to restore inflation to the target corridor.

Ample liquidity in the banking industry and economy remains. In September 2022, the ratio of liquid assets to third-party funds remained high at 27.35%, thereby supporting the banking industry's ability to disburse loans amid ongoing liquidity policy normalisation by Bank Indonesia through gradual increments in rupiah reserve requirements (RR) and maintaining the RR incentive. Liquidity conditions in the economy are loose, as reflected by 13.5% (yoy) and 9.1% (yoy) growth of narrow money (M1) and broad money (M2) aggregates respectively. Meanwhile, implementing the Joint Decree between Bank Indonesia and the Ministry of Finance, BI continues to purchase SBN in the primary market to fund the national economic recovery and finance the health and humanitarian aspects of the Covid-19 pandemic, totalling Rp138.08 trillion as of 19th October 2022. Ample liquidity is also helping to drive the economic recovery.

Policy rate hikes are raising money market rates amid interest rate rigidity in the banking industry. In the markets, the IndONIA rate increased 102bps from the end of July 2022 to 3.82% on 19th October 2022 in line with the higher BI7DRR and strengthening the monetary operations strategy of Bank Indonesia. Short-term SBN yields are up 114bps, coupled with relatively stable long-term SBN yields. Lending rates and funding costs in the banking industry are experiencing rigidity in line with loose liquidity conditions that are prolonging the lag effect of policy rate transmission.

The bank intermediation function continues to improve and support the economic recovery. Growth of outstanding loans disbursed by the banking industry in September 2022 stood at 11.00% (yoy), boosted by all loan types and economic sectors. Intermediation in the sharia banking industry also continues to recover, with growth accelerating to 19.0% (yoy) in September 2022. On the supply side, a stronger intermediation function was supported by lending standards that remain loose in the banking industry given the improving appetite to disburse loans, primarily to the manufacturing industry, agricultural sector, trade and construction. On the demand side, an ongoing corporate and household sector recovery is driving intermediation. Corporate sector performance is reflected by improving repayment capacity, sales and capital expenditures (CapEx), particularly in the trade and mining sectors. Household performance is indicated by improving consumption and investment in line with consumer optimism. In terms of micro, small and medium enterprises, MSME loan growth was recorded at 17.13% (yoy) in September 2022, primarily supported by the micro segment. Bank Indonesia appreciates the contribution of the banking industry in terms of accelerating the national economic recovery by increasing lending to the corporate sector and maintaining accommodative lending rates. Based on the latest developments and synergetic efforts by the authorities, financial sector and corporate sector, credit growth in 2022 is projected in the 9-11% (yoy) range.

Financial system resilience remains solid, particularly the banking industry, in terms of capital and liquidity. The Capital Adequacy Ratio (CAR) in the banking industry was still high in August 2022 at 25.12%. Strong capital is helping to minimise credit risk, as reflected by low NPL ratios of 2.88% (gross) and 0.79% (nett). Liquidity in the banking industry was maintained in September 2022, supported by deposit growth of 6.77% (yoy) despite moderating from 7.77% in August 2022 due to increasing private consumption and corporate capital expenditures as well as the current preference to place funds in other financial assets, as indicated by the value of SBN holdings. BI simulations confirmed that bank resilience has been maintained, yet the potential impact of several risk factors stemming from domestic macroeconomic conditions and global economic turmoil demand vigilance.

Bank Indonesia is strengthening payment system policy and accelerating digitalisation to improve the efficiency of economic transactions and support economic recovery. Digital economic and financial transactions continue to increase in line with greater public acceptance and growing public preference towards online retail as well as the expansion and convenience of the digital payment system and accelerating digital banking. The value of electronic money transactions grew 35.79% (yoy) in the third quarter of 2022, which is projected to increase by 32.27% (yoy) in 2022 to reach Rp404 trillion. In addition, the value of digital banking transactions increased 29.47% (yoy) in the third quarter of 2022, which is projected to increase by 30.19% (yoy) in 2022 to reach Rp53,144 trillion. Bank Indonesia continues to foster payment system innovation, including ongoing preparations for the post-pilot implementation of QRIS TTS (withdrawal, transfer, deposit), while expanding cross-border QRIS arrangements. In terms of cash, currency in circulation in the third quarter of 2022 increased 7.61% (yoy). Bank Indonesia continues to ensure the availability of quality rupiah currency fit for circulation throughout the territory of the Republic of Indonesia, including the new 2022 series of rupiah banknotes.

Click here for [full statement](#)

BI 7-Day Reverse Repo Rate Raised 50 bps to 4.75% SYNERGY MAINTAINING STABILITY AND RECOVERY MOMENTUM

The BI Board of Governors Meeting agreed on 19th and 20th October 2022 to raise:

BI 7-Day Reverse Repo Rate to **4.75%**

Deposit Facility (DF) rates to **4.00%**

Lending Facility (LF) rates to **5.50%**

The decision to raise the policy rate was taken as a front-loaded, pre-emptive and forward-looking measure to:

✓ Lower overshooting inflation expectations and return core inflation to the 3.0%±1% target corridor in the first half of 2023.

🏆 Strengthening exchange rate stabilisation policy in line with the rupiah's fundamental value in response to broad-based US dollar appreciation and elevated global financial market uncertainty amid strong and increasing domestic demand.

2022 OUTLOOK

ECONOMIC GROWTH
4.5%-5.3%

CURRENT ACCOUNT
Surplus in the 0.4-1.2% of GDP range

INFLATION
Projected exceeding the upper limit of the 3.0%±1% target

CREDIT GROWTH
Projected in the 9-11% (yoy) range

ASSESSMENT

1. GLOBAL ECONOMY
Global economic is prone to moderation, accompanied by intense inflationary pressures and global financial market uncertainty.

2. DOMESTIC ECONOMY
The national economic recovery remains intact.

3. INDONESIA'S BALANCE OF PAYMENT
Indonesia's Balance of Payments (BOP) remains sound in line with persistently strong non-oil and gas export performance.

4. EXCHANGE RATE
Rupiah stability has been maintained despite increasing global financial market uncertainty and US dollar appreciation.

5. INFLATION
The impact of fuel price adjustment on volatile food and administered price hikes was weaker than initially forecast. Low core inflation was maintained.

6. LIQUIDITY
Ample liquidity in the banking industry and economy remains.

Loose liquidity in the banking industry

Ratio of Liquid Assets to Deposits	Deposit Growth
27.35% (September 2022)	6.77% (yoy) (September 2022)

Liquidity in the economy remained ample

M2	M2
13.5% (yoy) (September 2022)	9.1% (yoy) (September 2022)

BI continues to purchase SBN in the primary market to fund the national economic recovery and finance the health and humanitarian aspects of the Covid-19 pandemic, totalling:

Rp138.08 Trillion as of 19th October 2022

7. INTEREST RATE
Policy rate hikes are raising money market rates amid interest rate rigidity in the banking industry.

Indonesia	SEK
3.82% (as of 19 th October 2022)	8.60% (July - August 2022)

8. FINANCIAL STABILITY
Financial system resilience remains solid, particularly in the banking industry, in terms of capital and liquidity.

9. PAYMENT SYSTEM
Bank Indonesia is strengthening payment system policy and accelerating digitalisation to improve the efficiency of economic transactions and support economic recovery.

Transaction Value Growth:

Electronic Money	Digital Banking
35.79% (yoy)	29.47% (yoy)

First quarter of 2022 | Third quarter of 2022

ATM, Debit Card & Credit Card	Currency in Circulation
30.74% (yoy)	7.61% (yoy)

Third quarter of 2022 | Third quarter of 2022

As of 19th October 2022

Depreciated **8.03%** (ytd)

Comparatively lower than the currency depreciation experienced in other peer countries:

India	Malaysia
10.42%	11.75%
Thailand	
12.55%	

on the local record at the end of 2021

Sell-Side Analyst Views

ANZ: We have pencilled in a 50bp rate hike at Bank Indonesia's (BI) upcoming meeting (Thursday, 17 November, 15:20 SGT). Admittedly, recent inflation data per se do not call for aggressive rate hikes. The headline number eased, and while core inflation continued to rise, the pass-through from earlier fuel price adjustments have been weaker than previously anticipated. That said, stabilising the IDR has become an increasingly important consideration; a hawkish US Fed gives BI impetus to maintain an assertive response to cap downward pressure on the currency, which has underperformed regional peers over the past month. Recent Q3 GDP data which showed robust economic activity and October's consumer survey that pointed to robust sentiment could give BI confidence to deliver another outsized hike.

Bank of America: We expect BI to deliver another 50bp hike to its policy rate, given the focus on maintaining IDR stability amidst an aggressive Fed. Recent GDP data was also robust and supports further monetary policy tightening from BI.

Barclays: We still expect BI to hike its policy rate by another 50bp in this week's meeting, followed by two 25bp increases in Q1 23, ending the cycle at 5.75%. BI Governor Perry Warjiyo has been reiterating the central bank's "front-loading, preemptive and forward-looking" stance, which in our view suggests at least one more 50bp hike is likely. The key focus for policymakers is likely to be inflation expectations and the Fed over any inflation undershoots. That said, we still see risk of more and earlier rate hikes if the Federal Reserve continues its aggressive hiking cycle. Should the Fed's 75bp rate hikes threaten to further compress Indonesia-US rate differentials, we think the BI could feel compelled to stay aggressive in December.

DBS: A comfortable growth backdrop provides the central bank the necessary room to focus on inflationary expectations and keep currency underperformance in check through further rate hikes. In this spirit, a frontloaded 50bp rate hike is likely on the cards, with a small probability that policymakers might lean towards an incremental increase if the recent pullback in US inflation is viewed as a reason for the Fed to dial down its pace of hikes and pause further widening in respective rate differentials, by extension easing depreciation pressure on the regional currencies.

Goldman Sachs: We expect Bank Indonesia (BI) to hike policy rates by 50bp at its meeting next week, bringing the policy rate to 5.25% (BBG consensus: 5.25%), from 4.75% currently. While month-to-month inflation momentum has slowed after the subsidized fuel price hike in September, headline inflation is likely to stay at elevated levels through 1H2023 on continuing cost pass-through to food prices and building core inflation pressures. Meanwhile, USDIDR has remained on a backfoot since the last meeting despite a slightly softer dollar. With robust domestic economic activity, still elevated inflation pressures and the focus on maintaining IDR stability, we think the BI will hike policy rates by another 50bp at its meeting this week – citing the need to be forward-looking and preemptive to guard its medium-term FX and price stability mandates. The risk to this forecast is tilted in the dovish direction (i.e. a smaller hike of 25bp) if USDIDR continues to strengthen over coming days on a dollar relief rally following the downside surprise to US core CPI this week.

ING: Bank Indonesia will likely hike rates by 50bp to help steady the Indonesian rupiah, which has been under some pressure of late. The third-quarter GDP growth report was better than expected, giving the central bank some room to be aggressive with its tightening now that core inflation is moving higher.

J.P.Morgan: The central bank of Indonesia meets on November 17 and we expect a 50bp hike. In Indonesia, the meeting should shed light on resolution of the policy tension between managing a gradual domestic recovery, benign core inflation and the need to maintain interest parity amid tightening external financial conditions. In the past, preserving external stability has tended to bias the reaction function and we think this cycle will not be much different and informs our view of a 50bp hike.

Morgan Stanley: We expect BI to maintain the pace of rate hikes and raise the policy rate by 50bps in the upcoming monetary policy meeting. In its Oct meeting, BI had lifted the policy rate by 50bps for the second consecutive meeting and policy makers had characterized the move as "front loaded" and "pre-emptive", aimed at bringing back core inflation to its target corridor of 3.0±1% by 1H23 (which was earlier than their previous guidance

of 2H23). In addition, BI had also mentioned that the policy action would strengthen rupiah exchange rate stabilisation as part of its efforts to control imported inflation. We think that maintaining the pace of rate hikes at a 50bps clip will help anchor inflation expectations, stabilize the exchange rate and ultimately help BI bring core inflation back to target by 1H23. Since the previous meeting, 3Q22 GDP growth data was released, showing that the economy grew by 5.7%Y with domestic demand providing a boost to growth while headline inflation had moderated, as per BI's guidance, to 5.7%Y and the Fed had hiked rates by another 75bps. With the downside surprise in US CPI and the appreciation of the IDR this week, the risk to the call is skewed towards policy makers taking up a smaller magnitude (i.e. 25bps) of rate hike. 3Q22.

Scotiabank: Bank Indonesia is expected to raise its 7-day reverse repo rate by 50bps on Thursday amid rising inflation. The minority view in favour of a 25bps hike might win out if the central bank is less concerned about financial instability effects stemming from weakness in the currency in light of the fact that US CPI surprised lower and may motivate a milder rate hike by the Fed in December.

Societe Generale: With Fed chair Powell indicating that expectations of an early pivot are unlikely to materialise, given the Fed's unflinching resolve to bring down inflation meaningfully by raising the terminal rate expectation, Bank Indonesia is in a bind. Its delayed entry into the global rate tightening party requires it to be more aggressive than it originally intended. And having been one of the few countries to have benefitted from the sharp upturn in the global commodity cycle in 2022, Indonesia will likely head into a perfect storm in 2023. We see a possibility of BI extending the debt monetisation scheme to 2023. Also, in an effort to improve the relative attractiveness of real yields, BI has brought forward its target of bringing core inflation back to the 3.0% level from 3Q23 to 1Q23. This will require it to continue to be aggressive on rate hikes (given the assumed lag in the effect of monetary policy actions on the real economy) and hence we expect it to announce another 50bp rate hike next week, taking the policy rate to 5.25%.

- The near-term risks remain skewed to the upside in USD/IDR as the focus remains on inflation and a tighter Fed policy for longer. A sustained turnaround in sentiment from a China reopening theme should be positive for Indonesian assets, however as of now we interpret the uncertainty surrounding the lifting of the zero-COVID policy as a long volatility event, and therefore bearish for IDR in the medium term.
- Further debt monetisation in 2023 could continue to crowd out private and foreign participation, which will add to the upside inflation risks and subsequently drive bond yields higher in the medium term if not managed properly. Succour will likely come from global rates price action, which is expected to gradually grind lower in 2023.

TD: BI is likely to step down to 25bps hiking steps given the downside surprise in headline inflation. The rebound in IDR strength also lessens the need for BI to continue with outsized hikes to support IDR.