

Indonesia Investments

Monetary Policy Indonesia

- As Expected, Bank Indonesia Went for a 0.25% Rate Hike in December 2022
- Taking a Look at the Federal Reserve's Latest Policy Adjustments & US Inflation
- Pressures on the Rupiah and Indonesian Inflation Seem to Have Eased
- Bank Indonesia Expected to Raise Its Key Rate to 6.00% in H1-2023
- Bank Indonesia Adjusts Its Reserve Requirement Incentive Scheme

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Update – 26 December 2022

**‘Monetary Policy of Indonesia; Bank
Indonesia Raises Key Rate Again’**



Preface

In addition to our reports, Indonesia Investments sends updates on key economic, political or social developments to our subscribers to make sure that our subscribers do not miss out on vital information. Topics in these updates will often be discussed in more detail (and in an updated form) in forthcoming monthly reports.

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- Monetary Policy -

Monetary Policy Analysis: Bank Indonesia Raises Its Key Interest Rate to 5.50% in December 2022

As expected, the central bank of Indonesia (henceforth: Bank Indonesia) decided to raise its benchmark interest rate (the 7-Day Reverse Repo Rate) by 25 basis points (bps) to 5.50 percent after concluding its latest (two-day) monetary policy meeting on 21-22 December 2022. Meanwhile, it also decided to raise the deposit facility and lending facility rates by 25 bps to 4.75 percent and 6.25 percent, respectively.

Why was this expected? Well, because the US Federal Reserve also slowed down its aggressive monetary tightening at the end of 2022. This means that the rupiah rate should encounter fewer pressures.

US Federal Reserve's Rate Hikes in 2022:

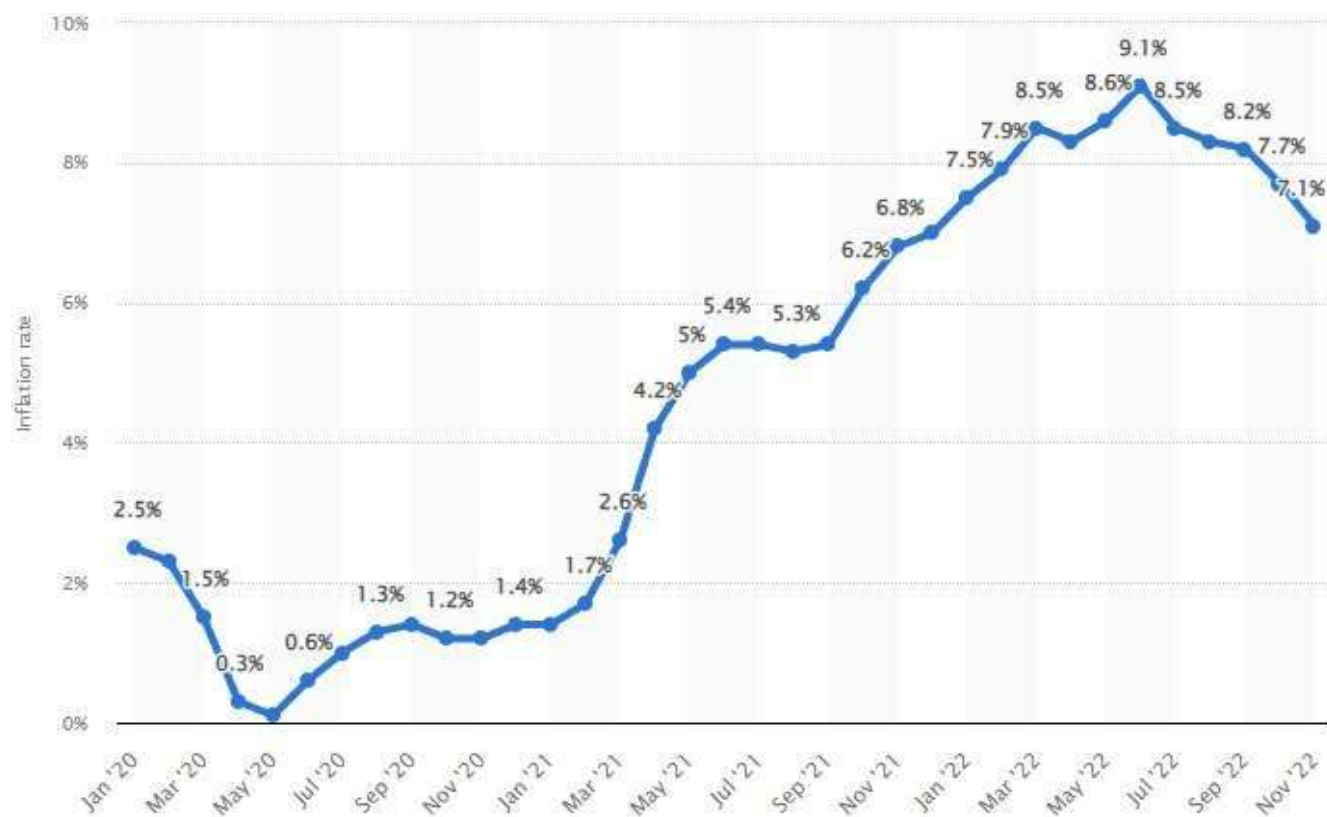
FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sept 21, 2022	+75	3.00% to 3.25%
July 27, 2022	+75	2.25% to 2.5%
June 16, 2022	+75	1.5% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

Source: www.forbes.com/advisor/investing/fed-funds-rate-history/

After four straight 0.75 percent point hikes (in June, July, September and November) the Federal Reserve (Fed) raised its key rate by 'only' 0.50 percent on 14 December 2022 as US inflation shows an easing trend.

It was certainly an active year for the Fed as it raised its benchmark rate on seven consecutive occasions (to the highest level since 2007) in an aggressive attempt to push US inflation lower. The chart below shows that US inflation is now gradually easing from a 40-year high. However, inflation remains high by historical standards.

US Inflation (annual % change):



Source: www.statista.com

[...]

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