

# Bank Indonesia Rate Decision

Policy rate remained unchanged at 5.75%, signalling end of tightening cycle

- **Bank Indonesia (BI) kept the benchmark 7-day reverse repo rate at 5.75% at its third Board of Governor meeting for this year, matching house and consensus expectations.**

- The Deposit Facility and Lending Facility rates were also kept at 5.00% and 6.50%, respectively.
- **BI statement:** consistent with the pre-emptive and forward-looking stance to ensure a continued decline in inflation expectations and future inflation. BI believe the policy rate of 5.75% is sufficient to bring the core inflation within the target range of 2.0% - 4.0% in 1H23, while headline inflation returned to the similar target range in 2H23.

- **Upgrade global growth forecast amid optimism of China's reopening**

- **GDP:** BI upgraded its projection for 2023 global economic growth to 2.6% from the previous 2.3%, matching its original forecast underpinned by the positive impact of China's reopening and easing global supply chain disruptions. This is also backed by better-than-expected growth in the US and EU amid a lower risk of recession. Meanwhile, on the domestic front, BI maintained its growth forecast at 4.5% - 5.3%, with an upside bias driven by higher domestic demand and exports.
- **Inflation:** BI maintained its projection on inflation, with core and headline inflation returning to the target range of 2.0% - 4.0% in 1H23 and 2H23, respectively. February's inflation was slightly higher at 5.47% than previously (Jan: 5.28%), suggesting that the impact of the previous cumulative rate hikes has yet to fully materialised.
- **Rupiah:** As of March 15, the Rupiah strengthened by 1.2% against the USD compared to the end of 2022. Other regional currencies also gained, namely the Philippine Peso (1.5%) and the Chinese Yuan (0.4%). However, the Thai Baht (-0.1%) and the Ringgit (-1.7%) weakened against the greenback.

- **Policy rate may stay at 5.75% for quite some time, contingent on rupiah's stability**

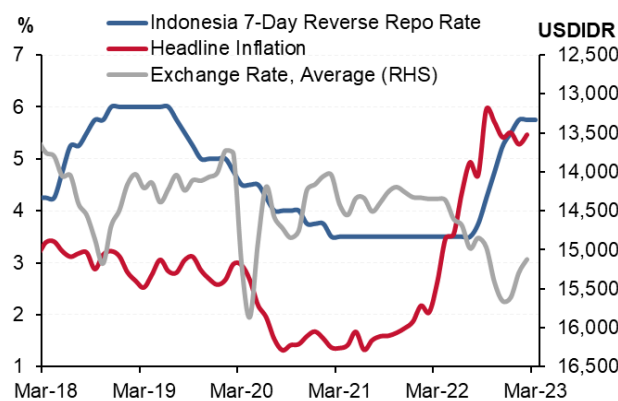
- We believe BI has completed its rate-tightening cycle and will likely shift towards a neutral stance going forward. This is also backed by the prospect of a slower rate hike by the US Fed amid the recent global banking fears and the impending global economic slowdown. In addition, easing inflationary pressure and a steady Rupiah will provide room for BI to hold rates steady at the current level and support the economic growth outlook.
- **USDIDR year-end forecast (14,912; 2022: 15,573):** Though the Rupiah was pressured by the recent hawkish US Fed and global bank fears, we still expect the Rupiah to strengthen towards the end of the year. This is in anticipation that the US Fed may pivot toward a less hawkish stance and probably turn dovish as soon as in the 2H23 due to growth concerns.

**Table 1: Policy Rates in Selected Countries**

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.75% (+0.50%)	New Zealand	Official Cash Rate	Feb-23
6.00% (+0.50%)	Philippines	Overnight Reverse Repurchase	Feb-23
3.00% (+0.50%)	Euro Area	Fixed Rate	Feb-23
3.35% (+0.25%)	Australia	Cash Rate	Feb-23
4.00% (+0.50%)	UK	Base Rate	Feb-23
4.50% - 4.75% (+0.25%)	USA	Funds Rate Target	Feb-23
1.50% (+0.25%)	Thailand	Repo Rate	Jan-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
1.75% (+0.125%)	Taiwan	Discount Rate	Dec-22
2.75% (+0.25%)	Malaysia	Overnight Policy Rate	Nov-22
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

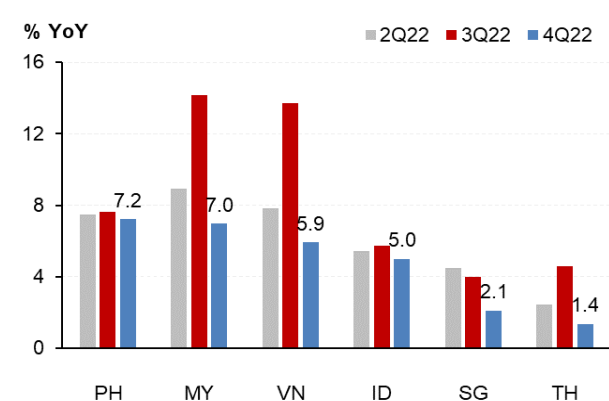
Source: Bloomberg, CEIC, Kenanga Research

**Graph 1: Inflation, Policy Rate and USDIDR trend**



Source: Bloomberg, CEIC, Kenanga Research

**Graph 2: ASEAN-5 + VN GDP Growth**



Source: CEIC, Kenanga Research

17 March 2023

**Table 2: Board of Governor (BOG) Meeting Schedule for 2023/ KIBB Outlook**

No.	Date		KIBB Research Outlook	BI Decision
1st	18-19 January (Wed and Thu)	<input checked="" type="checkbox"/>	25 bps hike	25 bps hike
2nd	15-16 February (Wed and Thu)	<input checked="" type="checkbox"/>	25 bps hike	No change
3rd	15-16 March (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
4th	18-19 April (Tue and Wed)	<input type="checkbox"/>	No change	
5th	24-25 May (Wed and Thu)	<input type="checkbox"/>	No change	
6th	21-22 Jun (Wed and Thu)	<input type="checkbox"/>	No change	
7th	24-25 July (Mon and Tue)	<input type="checkbox"/>	No change	
8th	23-24 August (Wed and Thu)	<input type="checkbox"/>	No change	
9th	20-21 September (Wed and Thu)	<input type="checkbox"/>	No change	
10th	18-19 October (Wed and Thu)	<input type="checkbox"/>	No change	
11th	22-23 November (Wed and Thu)	<input type="checkbox"/>	No change	
12th	20-21 December (Wed and Thu)	<input type="checkbox"/>	No change	

Source: Bank Indonesia, Kenanga Research

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