

26 May 2023

Bank Indonesia Rate Decision

Policy rate maintained at 5.75% for stability and to promote growth

- Bank Indonesia (BI) kept the benchmark 7-day reverse repo rate unchanged at 5.75% at its fifth Board of Governor meeting for this year, in line with expectations

- The Deposit Facility and Lending Facility rates were also kept at 5.00% and 6.50%, respectively.
- BI statement:** consistent with the monetary policy stance to ensure that core inflation is controlled within the target range of 2.0% - 4.0% for the rest of 2023, while headline inflation returned to a similar target range in 3Q23.

- BI revised its global growth forecast slightly upwards but maintained its inflation expectation

- GDP:** BI upgraded its 2023 global economic growth forecast slightly to 2.7% from 2.6%, mainly supported by a stronger growth in developing economies, particularly China and India. BI sees China's growth recovery following the reopening of the economy, while India's growth outlook is supported by strong domestic demand. However, BI sees global financial markets uncertainty remains high following the government debt ceiling crisis in the US. On the domestic front, BI retained its growth forecast at 4.5% - 5.3% as it sees economic activity to continue improving in the current quarter as reflected in retail sales, manufacturing PMI and rising consumer confidence.
- Inflation:** BI expects core inflation to remain under control in the target range of 2.0% - 4.0% for the rest of the year. Meanwhile, headline CPI is expected to return to the same target range in 3Q23. Core inflation remains stickier than expected, as it only slowed slightly to 2.94% in April (Mar: 2.83%) but is still within BI's target range.
- Rupiah:** As of May 24, the Rupiah remained relatively higher against the greenback compared to the end of last year. It strengthened by 4.3% while other regional currencies weakened, led by the Ringgit (-4.3%) and followed by the Philippine Peso (-0.1%).

- BI is likely to keep its policy rate unchanged at 5.75% for the rest of the year

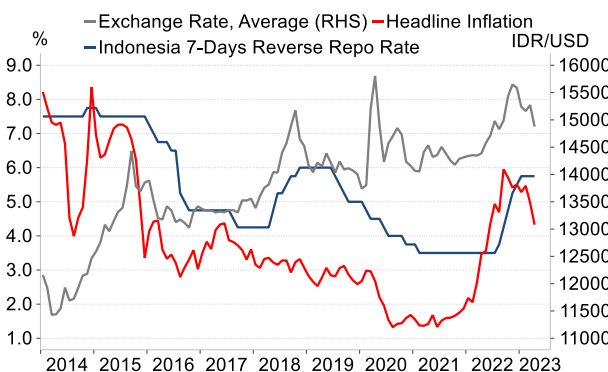
- While inflation is expected to moderate further in the 2H23, returning within the BI target range of 2.0% - 4.0%, we still expect BI to keep the policy rate steady at 5.75% for 2023. This is mainly due to an expectation that BI will take a cautious stance in adjusting its policy rate given the uncertainty of the US Fed policy direction and the impact of the US debt crisis on the US and global economy, which will affect the Rupiah's stability.
- USDIDR year-end forecast (14,730; 2022: 15,573): The recent appreciation in Rupiah did not last long despite a better-than-expected trade surplus reading in April. It remained pressured by the global risk-off sentiment brought by US debt limit impasse. Nevertheless, we still expect Rupiah to appreciate by the end of the year compared to the previous year as we anticipate the local note to be supported by China's economic reopening optimism and a potentially dovish stance by the US Fed in the 2H23. With that said, we have revised our year-end target slightly to 14,730 from 14,912.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
5.50% (+0.50%)	New Zealand	Official Cash Rate	May-23
4.50% (+0.25%)	UK	Base Rate	May-23
5.00% - 5.25% (+0.25%)	USA	Funds Rate Target	May-23
3.75% (+0.25%)	Euro Area	Fixed Rate	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
3.85% (+0.25%)	Australia	Cash Rate	May-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
6.25% (+0.25%)	Philippines	Overnight Reverse Repurchase	Mar-23
1.75% (+0.25%)	Thailand	Repo Rate	Mar-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

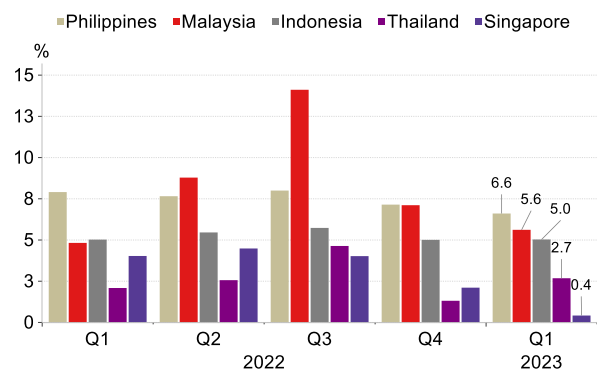
Source: Bloomberg, Kenanga Research

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Macrobond, Kenanga Research

Graph 2: ASEAN-5 GDP Growth



Source: Macrobond, Kenanga Research

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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	17-18 April (Tue and Wed)	<input checked="" type="checkbox"/>	No change	No change
5th	24-25 May (Wed and Thu)	<input checked="" type="checkbox"/>	No change	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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