

Bank Indonesia Rate Decision

Policy rate remains at 5.75% mainly to support the rupiah

- Bank Indonesia (BI) kept the benchmark 7-day reverse repo rate unchanged at 5.75% at its ninth Board of Governor meeting for this year, in line with house and market 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 inflation remains low and controlled within the target range of 2.0% - 4.0% in 2023 and 1.5% - 3.5% in 2024. BI also reiterated that the policy remained focused on controlling the stability of the rupiah as a measure to anticipate the impact of global financial uncertainty.

- GDP growth and inflation outlook remained unchanged**

- GDP:** BI maintained the 2023 global economic growth forecast at 2.7% amid higher global economic uncertainty, citing the slowing Chinese and resilient US economies. On the domestic front, BI kept its economic growth forecast unchanged at 4.5% - 5.3% largely supported by domestic demand in line with positive consumer sentiment. Nevertheless, BI still expects slower exports due to weakening global demand and falling commodity prices.
- Inflation:** No change to its inflation outlook, as BI believes inflation will remain under control in the range of 2.0% - 4.0% in the remainder of 2023 and 1.5% - 3.5% in 2024. Of note, August's inflation increased slightly to 3.27% (Jul: 3.08%) but remained within BI's target range.
- Rupiah:** Despite a stronger dollar, the rupiah remains the strongest currency in Asia year-to-date compared to last year. As of September 20, the rupiah is still relatively higher (+1.5%) than the greenback. Nevertheless, most Asian currencies depreciated, with the steepest decline led by ringgit (-6.4%), followed by baht (-4.0%) and peso (-1.7%).

- Policy rate is expected to remain at 5.75% for the rest of 2023 and possibly until 1Q24**

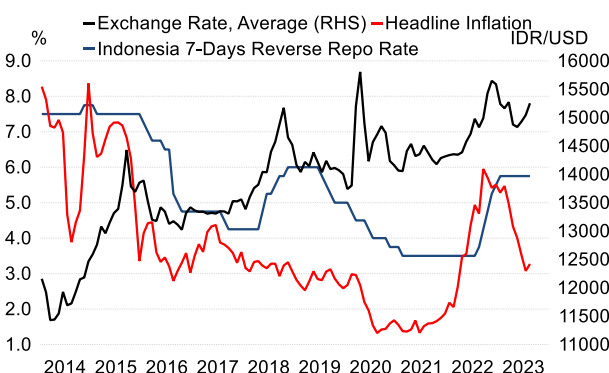
- Given the fragile rupiah amid expectation that the US Fed will hold interest rates higher and longer, as well as the fears of global economic slowdown as evidenced by weak China's post-pandemic recovery, we expect BI to maintain its policy rate steady at 5.75% for the rest of the year. This is to continue supporting the local note, which continues to be pressured by a stronger USD and is consistent with the BI monetary policy stance. Nevertheless, we believe BI has room to lean towards a rate cut in 2024 to support its growth trajectory, given that the inflation rate is expected to continue to moderate and remain under its target range, while the rupiah is anticipated to reverse its depreciation.
- USDIDR year-end forecast (14,730; 2022: 15,573): Forecast is maintained as we believe the rupiah could gain its strength if the US Fed signal a potential dovish shift towards the year-end. Likewise, we expect the rupiah to remain pressured in the near term as it remains susceptible to external factors.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.50% (+0.25%)	Euro Area	Fixed Rate	Sep-23
5.25% (+0.25%)	UK	Base Rate	Aug-23
3.45% (-0.10%)	China	Loan Prime Rate (1Y)	Aug-23
2.25% (+0.25%)	Thailand	Repo Rate	Aug-23
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-23
4.10% (+0.25%)	Australia	Cash Rate	Jun-23
5.50% (+0.25%)	New Zealand	Official Cash Rate	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
6.25% (+0.25%)	Philippines	Overnight Reverse Repurchase	Mar-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

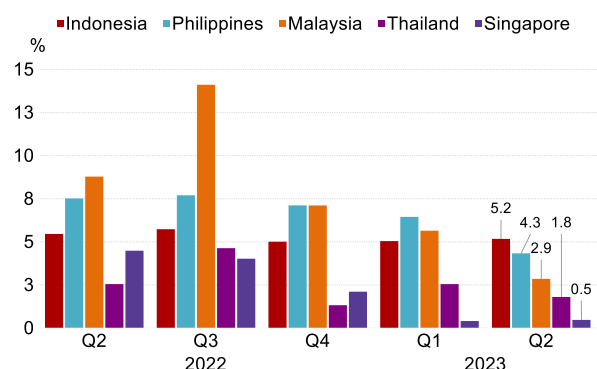
Source: Bloomberg, Kenanga Research

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Macrobond, Kenanga Research

Graph 2: ASEAN-5 GDP Growth



Source: Macrobond, Kenanga Research

22 September 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	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 checked="" type="checkbox"/>	No change	No change
7th	24-25 July (Mon and Tue)	<input checked="" type="checkbox"/>	No change	No change
8th	23-24 August (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
9th	20-21 September (Wed and Thu)	<input checked="" type="checkbox"/>	No change	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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