

# Bank Indonesia Rate Decision

Holds rate steady at 6.00%, but ease bank lending rules to boost growth

- As widely expected, Bank Indonesia (BI) maintained the BI rate at 6.00% in its third Board of Governor meeting for this year

- The Deposit Facility and Lending Facility rates were also maintained at 5.25% and 6.75%, respectively.
- BI statement:** reiterated the same phrase and tone since the end of last year that "consistent with the focus of pro-stability monetary policy, namely to maintain the stability of the rupiah exchange rate as well as a pre-emptive and forward-looking move to ensure inflation remains under control within the target range of 1.5% - 3.5% in 2024." Nevertheless, BI opted for loose macroprudential policies to boost bank lending for businesses and households in a bid to support economic growth.

- Maintained GDP growth and inflation projection

- GDP:** BI retained its global growth forecast in 2024 at 3.0%, largely attributed to strong growth demonstrated by the US and India, supported by domestic demand. It also expects a weak recovery in China's economy despite the increased fiscal stimulus. Domestically, BI maintained its growth forecast range at 4.7% - 5.5% (2023: 5.1%) driven by sustained domestic demand. Notably, BI expect subdued exports of goods largely due to the decline in demand from major trading partners.
- Inflation:** BI believe 2024 inflation will remain within its target of 1.5% - 3.5% (2023: 3.7%), despite an increase in the headline inflation in February (2.75%; Jan: 2.57%) due to the impact of El Nino, seasonal factors and shifts in the planting season. This is partly because core inflation remained low at 1.68% in Jan (Feb: 1.68%).
- Rupiah:** The rupiah has remained pressured by the strength of the US Dollar compared to the end of 2023. As of March 19th, the rupiah fell by 2.1%, but better than the depreciation recorded by ringgit (-2.7%) and baht (-3.4%).

- Higher for longer to support the rupiah, while waiting for the US Fed rate cut cycle

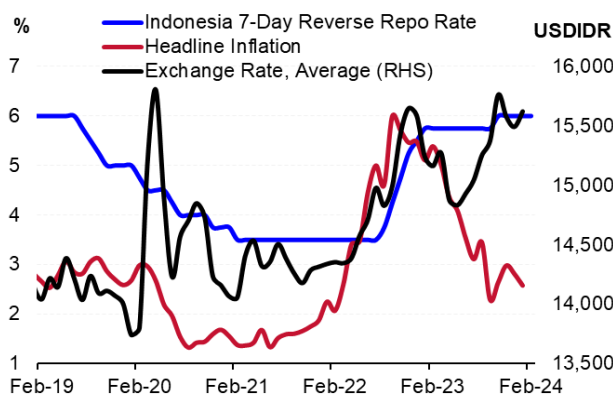
- BI current stance is consistent with the house's expectation that the central bank is expected to maintain the status quo for an extended period to support the fragile rupiah although the inflation rate is under control and rising risk of slower economic growth. BI's governor, Perry Warjiyo has reiterated that reducing policy rates will only happen if the rupiah stabilises and inflation moderates. Likewise, we expect three rate cuts in 2024, likely in the 2H24, settling the year-end BI rate at 5.25%.
- USIDDR year-end forecast (15,057; 2023: 15,493):** Despite the recent depreciation in the local note following the strong US Dollar, we continue to believe that the rupiah will gradually strengthen towards the end of the year. This is largely based on our anticipation of a 100-125 basis points reduction in US Fed funds rates starting from June 2024. Besides, an expected gradual recovery in China's economy would also support the local note. However, rising geopolitical tensions may limit the upside bias for the rupiah.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
0.00% - 0.10% (+0.10%)	Japan	Complementary Deposit Facility	Mar-24
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
6.50% (+0.25%)	Philippines	Target Reverse Repurchase	Oct-23
6.00% (+0.25%)	Indonesia	BI Rate	Oct-23
2.50% (+0.25%)	Thailand	Repo Rate	Sep-23
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
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-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
3.50% (+0.25%)	South Korea	Base Rate	Jan-23

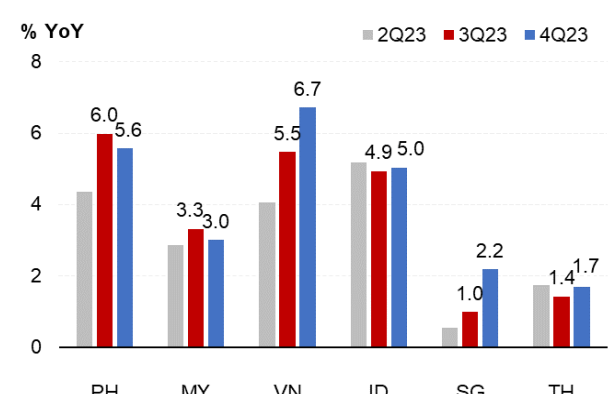
Source: Bloomberg, Kenanga Research

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Bank Indonesia, Macrobond, Kenanga Research

Graph 2: ASEAN-5 (+Vietnam) GDP Growth



Source: Macrobond, Kenanga Research

21 March 2024

**Table 2: Board of Governor (BOG) Meeting Schedule for 2024/ KIBB Outlook**

No.	Date		KIBB Research Outlook	BI Decision
1st	16-17 January (Tue and Wed)	<input checked="" type="checkbox"/>	No change	No change
2nd	20-21 February (Tue and Wed)	<input checked="" type="checkbox"/>	No change	No change
3rd	19-20 March (Tue and Wed)	<input checked="" type="checkbox"/>	No change	No change
4th	23-24 April (Tue and Wed)	<input type="checkbox"/>	No change	
5th	21-22 May (Tue and Wed)	<input type="checkbox"/>	No change	
6th	19-20 Jun (Wed and Thu)	<input type="checkbox"/>	No change	
7th	16-17 July (Tue and Wed)	<input type="checkbox"/>	25 bps cut	
8th	20-21 August (Tue and Wed)	<input type="checkbox"/>	No change	
9th	17-18 September (Tue and Wed)	<input type="checkbox"/>	25 bps cut	
10th	15-16 October (Tue and Wed)	<input type="checkbox"/>	No change	
11th	19-20 November (Tue and Wed)	<input type="checkbox"/>	25 bps cut	
12th	17-18 December (Tue and Wed)	<input type="checkbox"/>	No change	

Source: Bank Indonesia, Kenanga Research

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