

25 April 2024

Bank Indonesia Rate Decision

Unexpectedly raises policy rate to 6.25% amid falling rupiah

- Bank Indonesia (BI) raised the BI rate by 25 basis points (bps) to 6.25% during its fourth Board of Governor meeting this year. This marks the first rate hike for the year, defying broad expectations for a hold

- The Deposit Facility and Lending Facility rates were also increased to 5.50% and 7.0%, respectively.
- BI statement:** According to BI, "to strengthen the stability of the rupiah exchange rate from the impact of worsening global risks" and it also reiterated that the decision acts "as a pre-emptive and forward-looking step to ensure inflation remains within the target of 1.5% - 3.5% in 2024 and 2025 in line with the pro-stability monetary policy stance". At the same time, BI keep its loose macroprudential policies to boost bank lending for businesses and households despite higher interest rates.

- Optimistic on GDP growth outlook and inflation projection**

- GDP:** BI retained its growth forecast range at 4.7% - 5.5% (2023: 5.1%) as it expects the domestic economy to remain resilient with growth in the 1Q24 and 2Q24 to be higher than the 4Q23 amid strong domestic demand especially coming from household consumption.
- Inflation:** BI believes that inflation will stay within its 2024 target range of 1.5% - 3.5%, despite a slight rise from last year's 3.7%. However, there is increasing price pressure, with headline inflation in March edging up to 3.05% (Feb: 2.75%). Nevertheless, core inflation remained low (1.73%; Feb: 1.68%) with ample economic capacity to respond to domestic demand.
- Rupiah:** The rupiah remained pressured by the impact of a strengthening US Dollar. Compared to the end of 2023, the rupiah fell by 4.8%, lower than the decline recorded by baht (-5.9%), but slightly above ringgit's fall (-4.0%).

- BI may be done with hiking rates, but a pivot towards easing still seems remote in the near term**

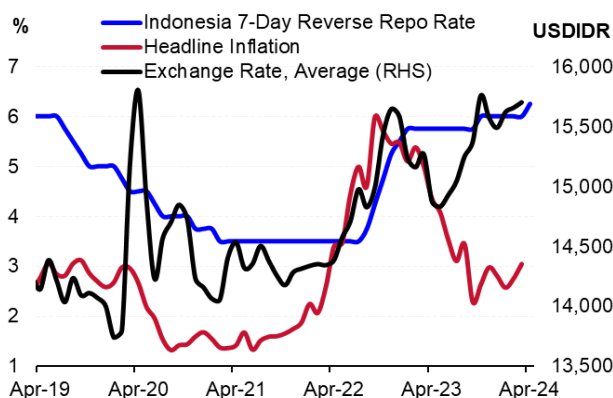
- While we believe yesterday's decision was rather unnecessary, it appears that escalating geopolitical tensions in the Middle East and a better-than-expected US economy continue to exert pressure on rupiah's stability. The need to maintain the currency's stability outweighed the expected controlled inflation rate and rising risk of slower economic growth, in line with its primary mandate. With that said, we revised our policy rate projection in 2024 to a two-rate cut from the previous three which is expected to occur in the 2H24, settling the year-end BI rate at 5.75%. Nonetheless, the chances of a rate cut also hinges on the policy direction of the US Fed.
- USDIDR year-end forecast (15,057; 2023: 15,493):** The current high interest rate and improving economic outlook may continue to support the rupiah in the near term. However, escalating geopolitical tensions may limit the upside bias for the local note to strengthen with the US Fed may hold its interest rate higher and longer, putting pressure on the rupiah. Nevertheless, we continue to believe that the rupiah will gradually strengthen towards the end of the year as we still expect a reduction in US Fed funds rates to happen in the 2H24.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
6.25% (+0.25%)	Indonesia	BI Rate	Apr-24
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
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

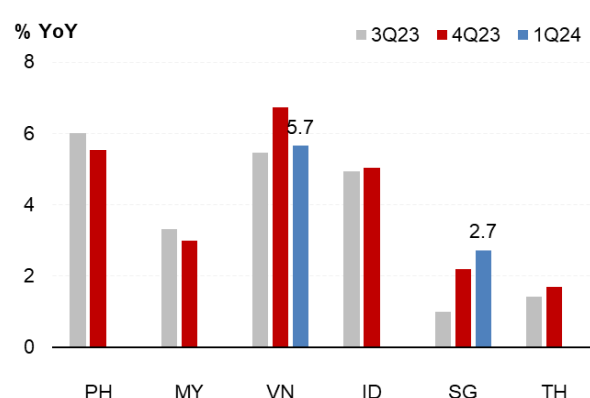
Source: Bloomberg, Kenanga Research

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

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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 checked="" type="checkbox"/>	No change	25 bps hike
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"/>	No change	
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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