

Bank Indonesia Rate Decision

Holds rates at 6.25% after last month's surprise hike

- Bank Indonesia (BI) kept its policy rate at 6.25% during its fifth Board of Governor meeting this year, meeting market expectations

- The Deposit Facility and Lending Facility rates were also kept at 5.50% and 7.00%, respectively.
- BI statement:** The decision is "consistent with pro-stability monetary policy, namely as a pre-emptive and forward-looking step to ensure inflation remains under control within the target of 1.5% - 3.5% in 2024 and 2025". It also added that its current stance to ensure "the effectiveness in maintaining foreign capital inflows and stability of the rupiah exchange rate" highlighting its commitment to the rupiah's stability. Meanwhile, BI continues its loose macroprudential policies to encourage bank lending for businesses and households.

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

- GDP growth expansion remains intact, while inflation expected to be under control

- GDP:** BI expects the domestic economy to stay resilient, as shown by the positive performance of household consumption and investment indicators. This follows a rise in 1Q24 GDP growth to 5.11% from 5.04% in the preceding quarter. Therefore, its 2024 growth forecast remains at 4.7% - 5.5% (2023: 5.1%).
- Inflation:** BI believes that 2024 inflation will remain within its target range of 1.5% - 3.5% (2023: 3.7%). This expectation is based on stable headline inflation in April at 3.0% (Mar: 3.05%) despite the festive season holiday, partly due to the impact of higher interest rates.
- Rupiah:** BI expect the rupiah to be stable with a tendency to strengthen, driven by attractive returns from the increased BI rate, falling risk premiums, better economic prospects and BI's commitment to stabilise the rupiah. However, the rupiah remains pressured by the strong US Dollar. Compared to the end of 2023, the rupiah fell by 3.6%, which is above ringgit's fall (-2.1%), but better than baht (-4.1%) and peso (-4.9%).

- Policy rate to stay elevated to support the rupiah's stability and depends on the Fed's policy direction

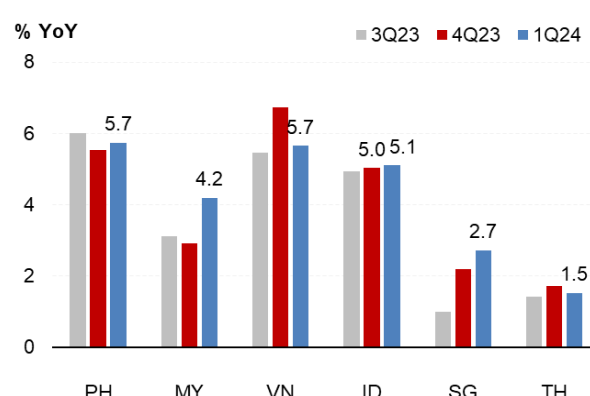
- We maintain our projection for another two policy rate cuts in 2024, expected in the 2H24 especially towards the end of the year, with the year-end BI rate settling at 5.75%. However, we expect BI to take a cautious approach, as the local note remains vulnerable to global financial uncertainty and may hold rates steady for an extended period.
- USDIDR year-end forecast (15,057; 2023: 15,493):** We believe the rupiah will gradually strengthen towards the end of the year, as we expect a reduction in US Fed funds rates to begin in the 2H24, supporting the local currency's appreciation.

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

23 May 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 checked="" type="checkbox"/>	No change	25 bps hike
5th	21-22 May (Tue and Wed)	<input checked="" type="checkbox"/>	No change	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"/>	No change	
10th	15-16 October (Tue and Wed)	<input type="checkbox"/>	25 bps cut	
11th	19-20 November (Tue and Wed)	<input type="checkbox"/>	No change	
12th	17-18 December (Tue and Wed)	<input type="checkbox"/>	25 bps cut	

Source: Bank Indonesia, Kenanga Research

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