

Bank Indonesia Rate Decision

A surprise 0.25% rate cut to 6.00% signals policy shift to stimulate growth

- In a surprise move, Bank Indonesia (BI) slash its policy rate by 25 basis points (bps) to 6.00% during its ninth Board of Governor meeting this year, defying both market and house expectations

- The Deposit Facility and Lending Facility rates were also lowered by 25 bps to 5.25% and 6.75%, respectively.
- **BI statement:** BI has now shifted its focus on balancing inflation, the rupiah and growth, adding that, "the decision is consistent with the low inflation forecast in 2024 and 2025, which is controlled within the target range of 1.5% - 3.5%, the strengthening and stability of the rupiah and the need to boost economic growth." This marks a departure from its previous stance which focus on stabilising the rupiah.

- Favourable inflation outlook and continued strengthening of rupiah allows for easing policy to boost GDP growth

- **GDP:** BI maintains its 2024 growth forecast at 4.7% - 5.5% (2023: 5.1%), but acknowledged that higher growth is needed, signalling stronger efforts to support domestic economy. Growth is expected to be driven by higher investment, robust household consumption, increased non-oil & gas exports and government spending.
- **Inflation:** BI continues to project inflation within its target range of 1.5% - 3.5% (2023: 3.7%) for 2024 and 2025. This is reflected in the August inflation reading which came in at 2.12% (Jul: 2.13%), which remained low and within target due to an increase in food supply from a bumper harvest season.
- **Rupiah:** On September 17th, the rupiah appreciated by 1.0% against the USD compared to end-August, although this was slightly below the appreciation seen in regional currencies such as baht (2.0%), and ringgit (1.4%).

- Further monetary easing likely in 4Q24 to boost growth

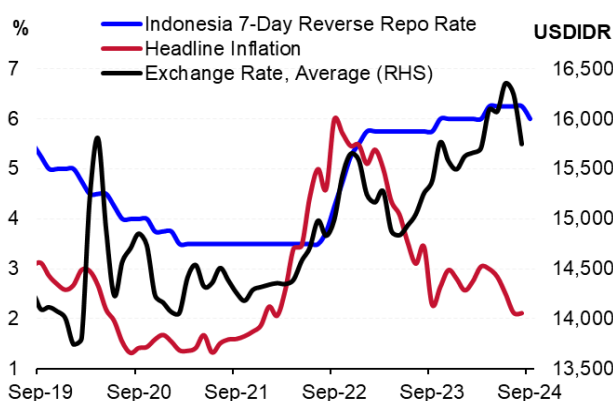
- BI's decision to cut rate ahead of the US Fed's September's FOMC meeting was unexpected, especially given that Governor Perry Warjiyo had previously hinted at monetary policy easing later in 4Q24. We had anticipated a more cautious approach, with rate cuts following the Fed's policy announcement. However, it appears that BI has gained confidence in the direction of Fed policy and opted for an earlier move.
- Concerns about slower growth likely prompted the earlier rate cut, as Indonesia's 2Q24 GDP growth slowed to 5.0% (1Q24: 5.1%), trailing regional peers which had expanded strongly like Vietnam (6.9%; 1Q24: 5.9%), Philippines (6.3%; 1Q24: 5.8%) and Malaysia (5.9%; 1Q24: 4.2%). With growth becoming a priority, we expect BI to implement additional rate cuts in 4Q24 to further support the economy.
- **US\$IDR year-end forecast (15,631; 2023: 15,493):** We maintain our year end forecast, despite the recent gain, with the rupiah trading below 15,400 level against the USD. We remain cautious due to persistent downside risks, particularly the uncertainty surrounding the Fed's policy direction, the upcoming US Presidential Election, and concerns over the broader health of the US and Chinese economies. These factors could limit rupiah's potential for further appreciation.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.75% - 5.00% (-0.50%)	USA	Funds Rate Target	Sep-24
6.00% (-0.25%)	Indonesia	BI Rate	Sep-24
3.50% (-0.25%)	Euro Area	Key Deposit Facility Rate	Sep-24
4.25% (-0.25%)	Canada	Overnight Rate	Sep-24
5.25% (-0.25%)	New Zealand	Official Cash Rate	Aug-24
6.25% (-0.25%)	Philippines	Target Reverse Repurchase	Aug-24
0.25% (+0.15%)	Japan	Overnight Call Rate	Aug-24
5.00% (-0.25%)	UK	Base Rate	Jul-24
3.35% (-0.10%)	China	Loan Prime Rate (1Y)	Jul-24
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
2.50% (+0.25%)	Thailand	Repo Rate	Sep-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23

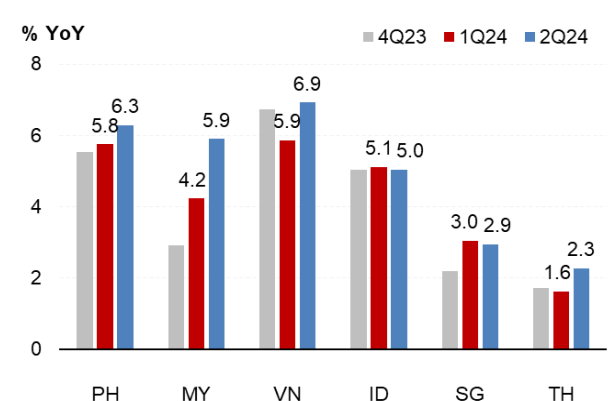
Source: Bloomberg, Kenanga Research

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

19 September 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 checked="" type="checkbox"/>	No change	No change
7th	16-17 July (Tue and Wed)	<input checked="" type="checkbox"/>	No change	No change
8th	20-21 August (Tue and Wed)	<input checked="" type="checkbox"/>	No change	No change
9th	17-18 September (Tue and Wed)	<input checked="" type="checkbox"/>	No change	25 bps cut
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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