

Bank Indonesia Rate Decision

Holds rate steady at 6.00% to preserve rupiah

- As expected, Bank Indonesia (BI) maintained the BI rate at 6.00% in its second 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 tone since the end of last year that "consistent with the focus of pro-stability monetary policy, namely to strengthen the stabilisation of the rupiah exchange rate as well as a pre-emptive and forward-looking step to ensure inflation remains under control within the target range of 1.5% - 3.5% in 2024."

- Upbeat on global economic growth and confident in domestic inflation outlook

- GDP:** BI revised up slightly its global growth forecast for 2023 and 2024 to 3.1% and 3.0%, respectively, from the previous forecast of 3.0% and 2.8%, respectively. The adjustment was largely attributed to stronger economic performance demonstrated by the US and India, driven by high consumption and investment. However, it acknowledges the downside risks such as China's slower economic growth and recession in the UK and Japan that could constrain global economic prospects. Domestically, BI maintained its growth forecast range at 4.7% - 5.5% (2023: 5.1%) as it expects an improvement in exports and sustained domestic demand to support the growth outlook.
- Inflation:** BI express confidence in keeping 2024 inflation low and within the target of 1.5% - 3.5% (2023: 3.7%) backed by the current monetary policy stance as reflected in the latest inflation (Jan: 2.57% YoY; Dec: 2.61%).
- Rupiah:** The rupiah has remained pressured by the appreciation of the US Dollar compared to the level seen at the end of 2023. As of February 20th, the rupiah declined by 1.5%. Nonetheless, other Asian currencies are also experiencing depreciation, led by the ringgit (-4.4%), baht (-3.1%) and peso (-1.0%).

- Ample room to ease the monetary policy stance, but upholding the rupiah's stability remains the key priority

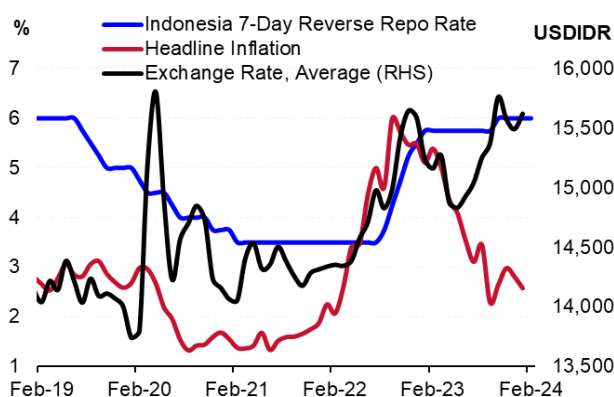
- Overall, the BI stance is consistent with the house's expectation that the central bank is expected to maintain the status quo for an extended period to support the fragile rupiah though the inflation rate has remained within the target range. BI also has hinted its baseline scenario for a policy pivot would be in the second half of this year, partly influenced by the expected US Fed's rate cut. Nevertheless, we believe there is room for an early policy easing in a bid to support the growth trajectory once the local note stabilises. With that said, we expect three rate cuts in 2024, likely in the 2H24, settling the year-end BI rate at 5.25%.
- USDIDR year-end forecast (15,057; 2023: 15,493):** We keep our target unchanged for now as we believe the rupiah will gradually strengthen towards the end of the year, supported by the US Fed dovish pivot, reduced domestic political uncertainty post-2024 Indonesian General Election, as well as the expected recovery in China's economy, Indonesia's largest trading partner. However, geopolitical tensions and a slower-than-expected recovery in China pose potential challenges to the rupiah's upside.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
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
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

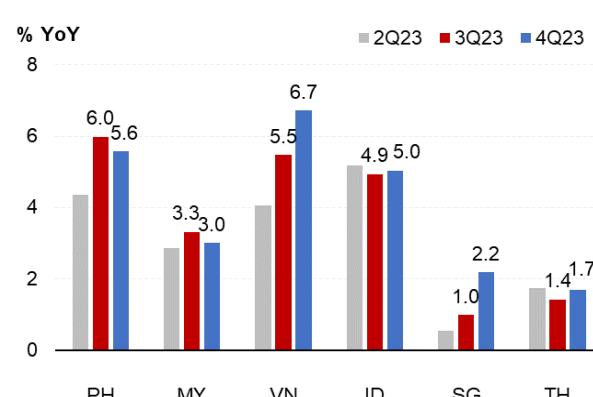
Source: Bloomberg, Kenanga Research

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

22 February 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 type="checkbox"/>	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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