

Bank Indonesia Rate Decision

Holds rate at 6.25% to safeguard rupiah and control inflation

- Bank Indonesia (BI) kept its policy rate at 6.25% during its seventh 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 as a preemptive and forward-looking measure to ensure inflation remains under control within the target of 1.5% - 3.5% in 2024 and 2025." Notably, the statement also added a new sentence specifically focusing on the rupiah, stating "the focus of monetary policy in the short term is directed at strengthening the effectiveness of rupiah exchange rate stabilization and attracting foreign capital inflows."

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.25% (-0.25%)	Euro Area	Fixed Rate	Jun-24
4.75% (-0.25%)	Canada	Overnight Rate	Jun-24
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
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
3.50% (+0.25%)	South Korea	Base Rate	Jan-23

Source: Bloomberg, Kenanga Research

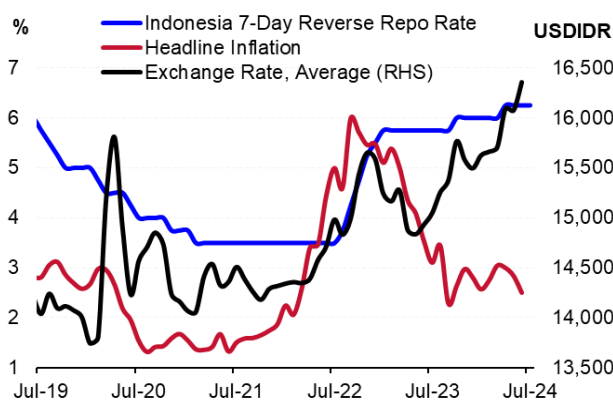
- Official forecast on GDP growth and inflation rate remained unchanged**

- **GDP:** BI maintains its 2024 growth forecast at 4.7% - 5.5% (2023: 5.1%) as it expects domestic growth to remain strong, backed by robust domestic demand, continued government spending with the fiscal deficit reaching 2.7% and increasing export performance as global external trade improves.
- **Inflation:** No change in the 2024 and 2025 inflation forecast, with BI still expecting it to settle within its target range of 1.5% - 3.5% (2023: 3.7%). This is partly due to the recent inflation reading slowing to 2.51% in June (May: 2.84%), attributable to an increase in food supply thanks to the harvesting season.
- **Rupiah:** BI reiterated its commitment to support the local currency, reflecting its cautious stance towards early monetary policy easing. This is because the rupiah remains pressured by the US Dollar appreciation. As of July 16, the rupiah had depreciated by 5.0% compared to the end of 2023, slightly less than the peso (-5.4%). However, the depreciation was higher than that of its regional peers, such as the ringgit (-1.8%), and baht (-3.4%).

- Policy rate to remain unchanged in the short term to support the stability of the rupiah**

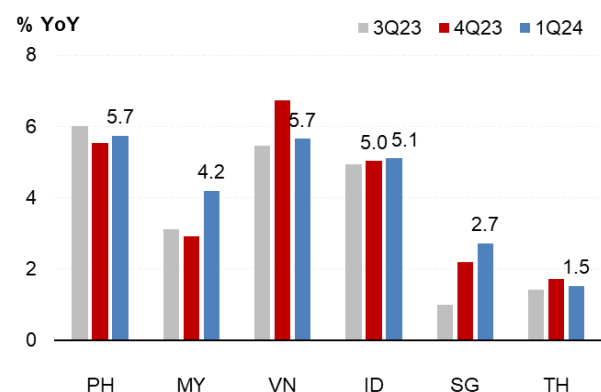
- We expect BI to adopt a cautious stance on monetary easing, likely waiting for the US Fed to reduce its funds rate, which the market anticipates in September. Additionally, domestic growth is projected to remain stable for the rest of the year due to robust domestic demand. Therefore, we anticipate at least two policy rate cuts by BI towards the end of the year, with the BI rate settling at 5.75%.
- **USIDDR year-end forecast (15,631; 2023: 15,493):** We revised our forecast from 15,057 considering the current level of rupiah, but BI's commitment to supporting the local note in the short term, and the US Fed is expected to cut rates as soon as in September due to impending macroeconomic weakness in the US remain as a major driver. Along with a positive economic outlook and attractive yields, we believe the rupiah will gradually strengthen towards the end of the year.

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

18 July 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 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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