

Bank Indonesia Rate Decision

Keep rates steady at 6.25% despite weak Rupiah

- Bank Indonesia (BI) kept its policy rate at 6.25% during its sixth 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 step to ensure inflation remains under control within the target of 1.5% - 3.5% in 2024 and 2025”. It also reiterated that its policy is supported by strengthening monetary operations, partly “to strengthen the effectiveness in the stability of the rupiah exchange rate and foreign capital inflows”. This includes strengthening the interest rate structure in the money market and optimising various securities. 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
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

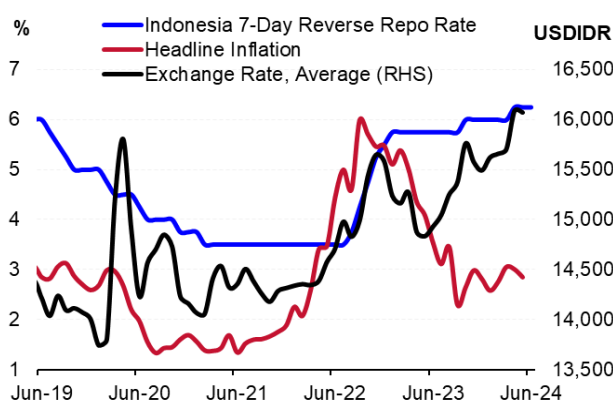
- GDP growth expansion remains intact, while inflation expected to be under control

- GDP:** BI expects the domestic economy to remain strong despite global uncertainty, as shown by the positive performance of private consumption and investment indicators. That said, its 2024 growth forecast remains at 4.7% - 5.5% (2023: 5.1%) backed by increasing domestic demand.
- Inflation:** BI continues to believe that 2024 inflation will remain within its target range of 1.5% - 3.5% (2023: 3.7%). This is reflected by the latest headline inflation in May which moderated to 2.84% (Apr: 3.00%).
- Rupiah:** BI reiterated its commitment to support the local note via various pro-market monetary instruments, aiming to deepen the money market and support the inflow of foreign capital into the country. However, the rupiah remains pressured by the US Dollar appreciation. As of June 19, the rupiah fell by 6.3% compared to the end of 2023. The depreciation was higher than its regional peers such as the peso (-6.1%), baht (-5.1%) and ringgit (-2.4%).

- Policy rate to remain unchanged in the near term in a bid to support the rupiah's stability

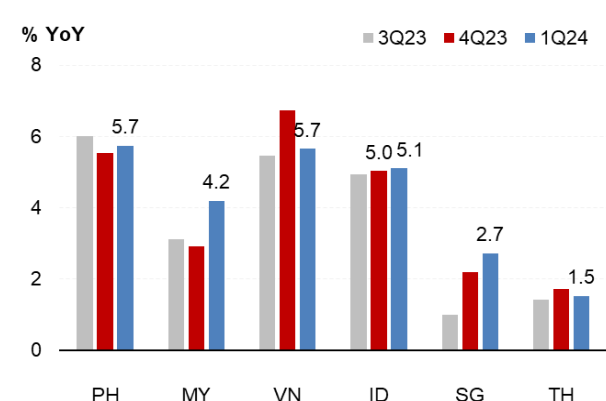
- We continue to expect at least two policy rate cuts in 2024, likely towards the end of the year, with the BI rate settling at 5.75%. This is largely because we expect a rate cut in the US Fed funds rate will boost emerging market currencies, prompting the rupiah to appreciate against the USD which is a key factor in determining BI rate decision. However, we expect BI to take a cautious approach, as the local note remains vulnerable to global financial uncertainty coupled with the rising concern over the fiscal outlook post-election.
- USDIDR year-end forecast (15,057; 2023: 15,493):** We maintain our forecast at the moment given the uncertainty of the US Fed policy direction. We believe the rupiah will gradually strengthen towards the end of the year on the anticipation that a reduction in US Fed funds rates will bolster 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

21 June 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 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

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Nurul Hanees Hairulkama
Economist
nurulhanees@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my