

Bank Indonesia Rate Decision

Policy rate stays at 5.75% as rupiah remains fragile

- Bank Indonesia (BI) kept the benchmark 7-day reverse repo rate unchanged at 5.75% at its eighth Board of Governor meeting for this year, in line with house and market expectations

- The Deposit Facility and Lending Facility rates were also kept at 5.00% and 6.50%, respectively.
- BI statement:** consistent with the monetary policy stance to ensure that inflation remains under control within the target range of 2.0% - 4.0% for the rest of 2023 and 1.5% - 3.5% in 2024. BI reiterated that the policy focuses on strengthening the rupiah's value to mitigate the impact of global financial uncertainty.

- Keep GDP growth and inflation forecast unchanged

- GDP:** BI maintained its 2023 global economic growth forecast at 2.7% but flagged a cautious tone as global economic uncertainty is increasing again amid weaker Chinese and European economies. Nonetheless, it sees better growth in the US and developed countries backed by a resilient domestic demand, which could signal further increases in monetary policy tightening. This subsequently led to increased uncertainty in global financial markets, prompting a stronger policy response to mitigate the adverse effect. On the domestic front, BI maintained its economic growth forecast at 4.5% - 5.3% as it expects growth to remain supported by domestic demand, following 2Q23 GDP growth, which expanded to 5.17% (1Q23: 5.04%). Nevertheless, BI expects exports to slow with the weakening of the global economy and commodity prices.
- Inflation:** BI believes 2023 inflation will remain under control in the range of 2.0% - 4.0% in the remainder of 2023 and 1.5% - 3.5% in 2024. This is already reflected in July's inflation, which moderated sharply to 3.08% (Jun: 3.52%). Similarly, core inflation also moderated to 2.43% (Jun: 2.58%), reflecting a slower demand, controlled inflation and low imported inflation.
- Rupiah:** Despite the recent dollar strength, the rupiah remains the strongest currency in Asia year-to-date. As of August 23, the rupiah is still relatively higher than the greenback compared to the end of last year, as it appreciated by 1.8%. Nevertheless, most Asian currencies were weakened, with sharp depreciation led by ringgit (-5.7%), followed by peso (-1.7%) and baht (-1.2%).

- Policy rate is expected to remain steady at 5.75% for the rest of the year

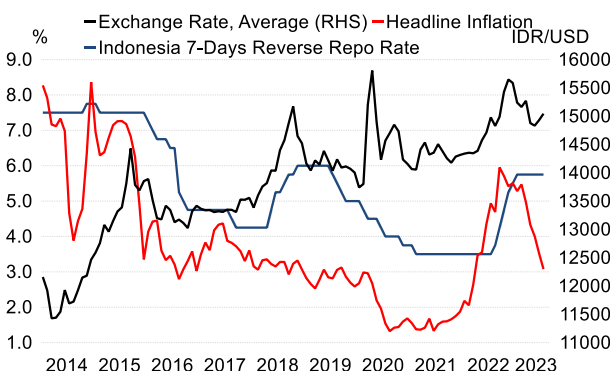
- BI is expected to maintain its policy rate at 5.75% as the rupiah remains susceptible to external risk and the fears of a global economic slowdown led by China's fragile recovery. Nevertheless, we believe BI has room to lean towards a rate cut to support the growth trajectory, given that the inflation rate continues to moderate.
- USDIDR year-end forecast (14,730; 2022: 15,573): Forecast retained as the rupiah is expected to strengthen due to a potential dovish shift by the US Fed as well as improving domestic economic fundamentals, attractive yield, and China's gradual growth recovery. Likewise, we still expect the rupiah to remain pressured in the near term as it remains susceptible to the direction of the US Fed monetary policy and the fears of a global economic slowdown.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
3.45% (-0.10%)	China	Loan Prime Rate (1Y)	Aug-22
5.25% (+0.25%)	UK	Base Rate	Aug-23
4.25% (+0.25%)	Euro Area	Fixed Rate	Aug-23
2.25% (+0.25%)	Thailand	Repo Rate	Aug-23
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-23
4.10% (+0.25%)	Australia	Cash Rate	Jun-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
6.25% (+0.25%)	Philippines	Overnight Reverse Repurchase	Mar-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

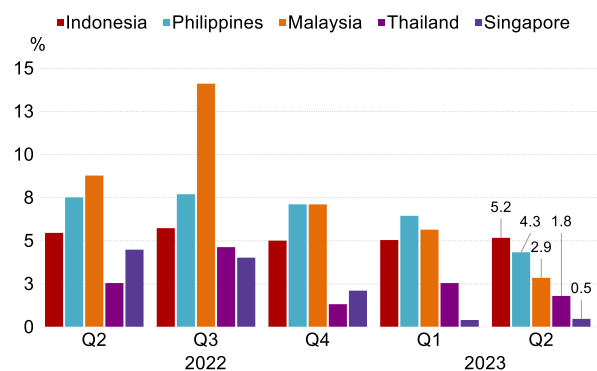
Source: Bloomberg, Kenanga Research

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Macrobond, Kenanga Research

Graph 2: ASEAN-5 GDP Growth



Source: Macrobond, Kenanga Research

25 August 2023

Table 2: Board of Governor (BOG) Meeting Schedule for 2023/ KIBB Outlook

No.	Date		KIBB Research Outlook	BI Decision
1st	18-19 January (Wed and Thu)	<input checked="" type="checkbox"/>	25 bps hike	25 bps hike
2nd	15-16 February (Wed and Thu)	<input checked="" type="checkbox"/>	25 bps hike	No change
3rd	15-16 March (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
4th	17-18 April (Tue and Wed)	<input checked="" type="checkbox"/>	No change	No change
5th	24-25 May (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
6th	21-22 Jun (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
7th	24-25 July (Mon and Tue)	<input checked="" type="checkbox"/>	No change	No change
8th	23-24 August (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
9th	20-21 September (Wed and Thu)	<input type="checkbox"/>	No change	
10th	18-19 October (Wed and Thu)	<input type="checkbox"/>	No change	
11th	22-23 November (Wed and Thu)	<input type="checkbox"/>	No change	
12th	20-21 December (Wed and Thu)	<input type="checkbox"/>	No change	

Source: Bank Indonesia, Kenanga Research

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