

Indonesia

20 March 2024

Bank Indonesia Stays on Hold

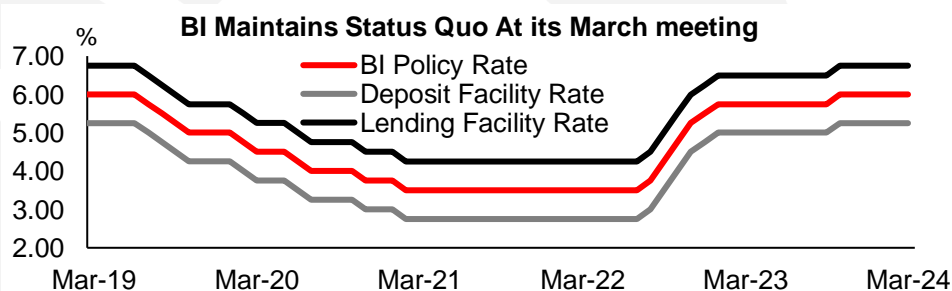
- Bank Indonesia left its policy rate unchanged at 6.00%, in line with expectations.
- BI made no changes to its assessments on growth, inflation and external balances. It, did, however, note that it will expand the sectors eligible for macroprudential incentives.
- We continue to expect a cumulative 125bp in rate cuts in 2024, starting late 2Q, mirroring our house view on the timeline of the US Fed rate cuts.

BI left its policy rate unchanged at 6.00%, in line with expectations. There were limited changes to BI's assessment on growth, inflation or the external backdrop relative to its 21 February meeting.

During the press conference, BI noted that its decision was consistent with its 'pro-stability' policy. On inflation, BI noted that it is confident that the recent volatility in inflation is temporary. On growth, BI continued to expect 2024 GDP growth to be within the range of 4.7-5.5%. Notwithstanding, it expanded the sectors eligible for macroprudential incentives to boost loan growth. Loan growth stood at 11.3% in February (January: 11.8%).

BI stated that it maintained IDR stability and looking ahead, it sees the currency as remaining stable, with a tendency to strengthen. In addition, BI maintained its current account deficit forecast range of '-0.1 to -0.9% of GDP'. If these materialise as planned, external vulnerabilities will be reduced. Finally, BI still expects that the US Federal Reserve to lower its policy rate in 2H24, which is also when it sees room to lower its policy rate.

Our view is that economic growth will slow this year to 4.8% YoY versus 5.0% in 2023 on the back of fading commodity tailwinds, some normalisation in household consumption following the election-related boost and a wait-and-see approach on investment spending. This, we believe, will validate BI's bias to support growth and ease monetary policy settings. Our expectation remains for a cumulative 125bp in rate cuts from BI, starting in late 2Q24, mirroring our house view on the timeline of the US Federal rate cuts.



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