

## Indonesia

20 June 2024

### Bank Indonesia: Hawkish Hold

- Bank Indonesia kept its policy rate at 6.25% at its 20 June meeting, in line with consensus and our expectations.
- BI's tone was cautious and relatively hawkish given that the USD/IDR touched 16,430 in the lead up to the meeting.
- We expect BI to remain hawkish in the near-term, watching IDR moves and smoothing currency volatility.

Bank Indonesia kept its policy rate at 6.25% at its 20 June meeting, in line with consensus and our expectations. USD/IDR touched 16,430 in the lead up to the meeting, raising market expectations around a potential rate hike.

Indeed, BI did acknowledge that there are “domestic factors”<sup>1</sup> contributing to IDR weakness namely “increased demand for foreign exchange by corporations, including for dividend repatriation, as well as perceptions of future fiscal sustainability.” These are in addition to external factors such the “uncertainty surrounding the direction of the Fed Funds Rate, the broad strengthening of US dollar, and continued high level of geopolitical tension.” BI noted that it sees the fundamental value of the USD/IDR exchange rate “below 16,000”.

Notwithstanding IDR depreciation versus USD, the broader tone of BI Governor Perry Warjiyo's press conference was similar compared to the May meeting. BI continues to expect the US Federal Reserve to cut its policy rate later this year. Specifically, BI noted that US growth remained “strong”, and it now expects global growth of 3.2% in 2024 (previous forecast of 3.0%).

Forecasts for the domestic economy remained unchanged for 2024, namely GDP growth (4.7%-5.5%), headline inflation (within its 1.5%-3.5% target range) and the current account deficit (-0.1% to -0.9% of GDP). Importantly, BI's multi-pronged approach to bolstering seems to be working. Credit growth remained robust at 12.2% YoY in May, versus 13.1% in April.

We expect BI to remain hawkish in the near-term, watching IDR moves and smoothing currency volatility. BI specifically noted that non-resident inflows have

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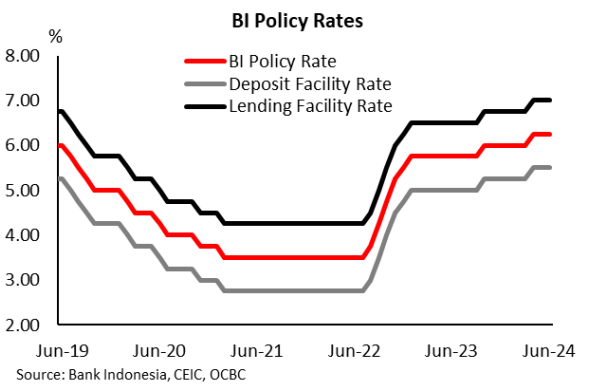
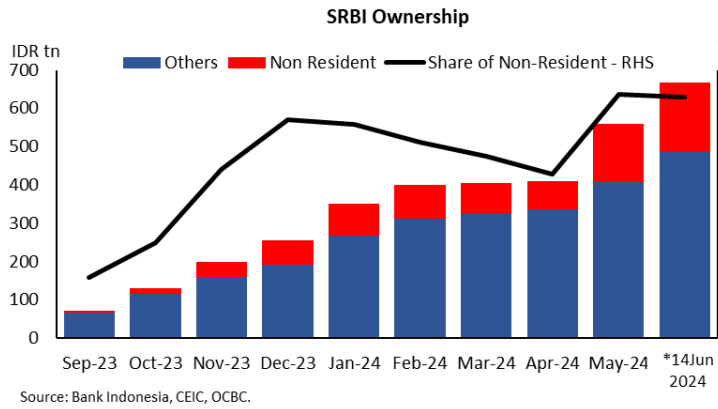
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<sup>1</sup> USDIDR fell 0.8% and breached the 16.400 level on Friday (14/6), following a Bloomberg report that the incoming government plans to boost the public debt to 50% of GDP. However, President-elect Prabowo's senior aide, Thomas Djiwandono, commented that "anything about debt levels, or going beyond the deficit, is noise" as reported by Reuters on Saturday (15/6).

picked up into the SRBI instrument. Further out, we expect BI to have some room to ease its policy rate once the US Federal Reserve begins easing. Our forecast is for BI to cut by a cumulative 50bp in 4Q24 followed by 75bp in 2025.



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