

**BI Rate Maintained at 6.0%: BI's Pro-Stability Stance**

**Bank Indonesia (BI) has chosen to uphold the Bi Rate at 6.00% (Cons: 6.00%, KBVS: 6.00%, Prev: 6.00%).** This decision is viewed as a proactive measure by BI, particularly in safeguarding the stability of the Rupiah. Despite the ongoing downward trend of the DXY alongside expectations of a Fed Rate decrease, BI remains attentive to domestic political tensions preceding elections and escalating global geopolitical tensions, especially from the Middle East.

On the other hand, **the well-maintained domestic inflation at 2.61% YoY in Dec '23 is seen as a key factor supporting the potential decrease in the Bi Rate in 2024.** However, it is worth noting that inflation may rise during the Ramadan-Eid season, especially with the possibility of El Niño persisting until May 2024. Additionally, we perceive BI's actions as a preemptive move to counter imported inflation ahead of the Ramadan and Eid seasons in Mar and Apr 2024.

**Furthermore, the sustained BI Rate at 6.0% appears to demonstrate the central bank's commitment to consistent monetary policy, aiming to retain foreign interest in the domestic money market.** In essence, this reinforces a pro-market monetary strategy through the optimization of SRBI, SVBI, and SUVBI instruments, attracting foreign portfolio inflows, deepening the money market, and stabilizing domestic interest rates. This is reflected in the Money Market Interest Rate (Indonesia), moving within the range of 5.81% as of 16 Jan '24, and SRBI on 15 Jan '24, at levels of 6.68% (tenor 6M), 6.78% (tenor 9M), and 6.87% (tenor 1Y). Simultaneously, SRBI and SVBI auctions until 16 Jan '24, amounted to IDR296.03 tn and USD896.50 mn, respectively, with active trading of SRBI instruments in the secondary market, where non-resident ownership reached IDR75.44 tn. In addition, BI's pro-market initiatives are anticipated to be supported by the implementation of the Foreign Exchange Placement Instrument for Natural Resource Export Proceeds (DHE SDA) in line with Regulation No. 36 of 2023.

**In this BI RDG, we also perceive signals of a potential BI Rate reduction in 2024. Nevertheless, it appears that BI will exercise caution in lowering the BI Rate, ensuring the stability of the Rupiah, sustaining non-resident appetite for domestic money market instruments, and managing domestic inflation risks. Consequently, we assume that any potential BI Rate reduction this year will align with the decrease in the Fed Rate to avoid potential financial market and domestic economic volatility.**

**Table 1. Interest Rate Data**

Indicators	17-Jan-24		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
<b>Policy Rate (in %)</b>				
United States	5.50	5.50	0.0	0.0
European Union	4.50	4.50	0.0	0.0
United Kingdom	5.25	5.25	0.0	0.0
Japan	-0.10	-0.10	0.0	0.0
China	3.45	3.45	0.0	0.0
India	6.50	6.50	0.0	0.0
Thailand	2.50	2.50	0.0	0.0
Philippines	6.50	6.50	0.0	0.0
Indonesia	6.00	6.00	0.0	0.0
<b>Global Monetary Policy Change (in number of countries)</b>				
Easing	2	6		
Unchanged	7	28		
Tightening	2	21		
<b>Average International Interest Rate (in %)</b>				
USD LIBOR -1 Month	5.45	5.47	(2.0)	113.4
USD LIBOR -3 Months	5.59	5.64	(4.6)	118.9
USD LIBOR -6 Months	5.60	5.68	(8.2)	81.8
<b>Domestic Interbank Money Market (in %)</b>				
INDONIA	5.87	5.85	2.2	42.3
JIBOR - 1 Month	6.65	6.65	0.0	665.0
JIBOR - 3 Months	6.95	6.95	(0.4)	192.6
JIBOR - 6 Months	7.07	7.07	0.2	127.5
JIBOR - 12 Months	7.20	7.20	0.0	100.0

Sources : Each Central Bank and GlobalRates – treated (2023)

**Fig 1. Fed Rate**



Source: The Fed – treated (2023)

**Fig 2. BI7DRR**



Source: Bank Indonesia – treated (2023)

Fig 3. US CPI Inflation



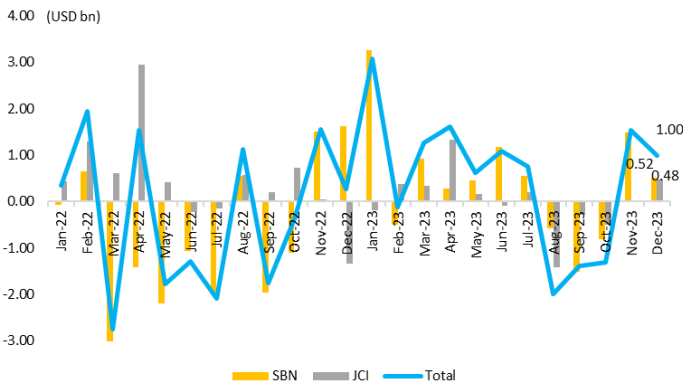
Source : US BLS – treated (2023)

Fig 4. Indonesia CPI Inflation



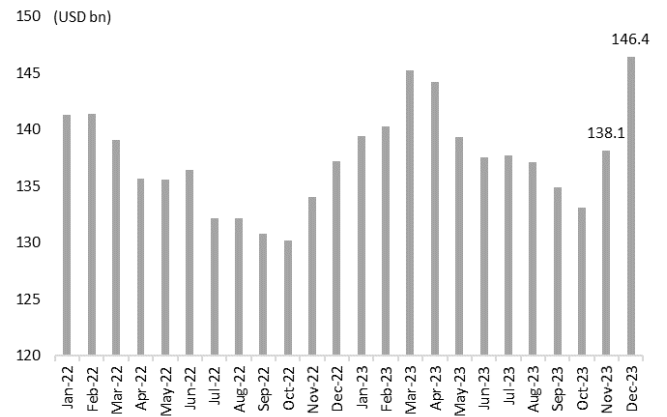
Source : BPS – treated (2023)

Fig 5. Indonesia Portfolio Flow



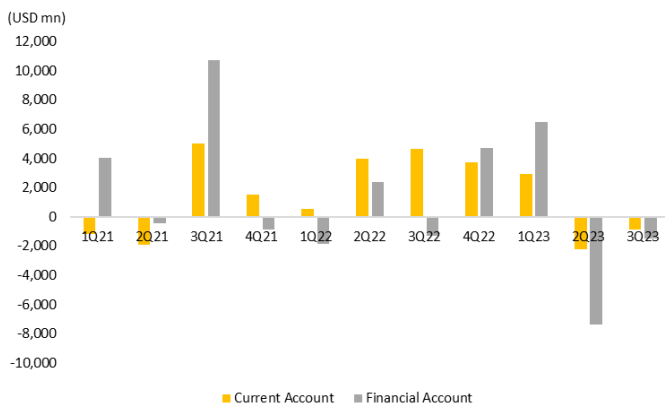
Source : Bloomberg – treated (2023)

Fig 6. Indonesia FX Reserves



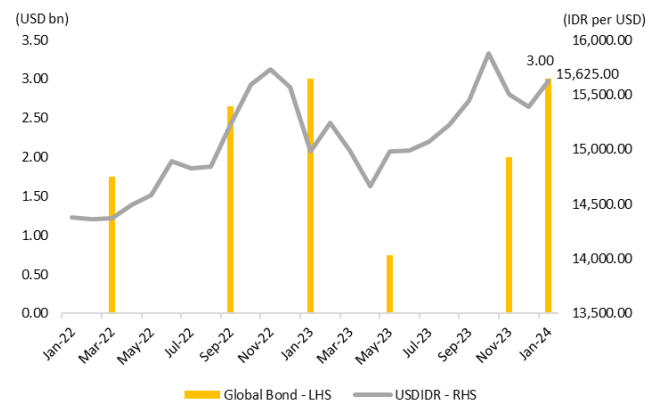
Source : BI – treated (2023)

Fig 7. Indonesia Balance of Payment



Source : BI – treated (2023)

Fig 8. USDIDR and Indonesia's Global Bond Issuance



Source : BI – treated (2023)

**Table 2. Fed Rate Probabilities, as of 16 January 2024**

MEETING DATE	FED RATE PROBABILITIES								
	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
31 Jan '24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.6%	97.4%
20 Mar '24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.6%	61.4%	37.0%
1 May '24	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	55.0%	39.6%	3.9%
12 Jun '24	0.0%	0.0%	0.0%	0.2%	7.6%	53.2%	35.5%	3.5%	0.0%
31 Jul '24	0.0%	0.0%	0.2%	7.3%	51.5%	36.2%	4.7%	0.1%	0.0%
18 Sep '24	0.0%	0.2%	7.2%	50.6%	36.5%	5.4%	0.2%	0.0%	0.0%
7 Nov '24	0.1%	4.8%	35.7%	41.3%	16.0%	2.0%	0.1%	0.0%	0.0%
18 Dec '24	3.9%	29.6%	40.2%	21.0%	4.8%	0.5%	0.0%	0.0%	0.0%

Source : CME Group – treated (2023)

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