

**BI-Rate Maintained at 6.25%; Enhanced Macroprudential Policy**

The BI Rate has been maintained at 6.25% (Cons: 6.25%, KBVS: 6.25%, Prev: 6.25%). Simultaneously, BI also maintained the Deposit Facility rate at 5.50% and the Lending Facility rate at 7.00%. We view this as a demonstration of BI's commitment to time consistency, in line with its pro-stability, pre-emptive, and forward-looking monetary policy, while also supporting pro-growth initiatives. BI stated that this policy is backed by strengthened monetary operations to enhance the effectiveness of Rupiah exchange rate stabilization and the influx of foreign capital.

Furthermore, we believe this decision aligns with (a) the stable inflation rate, which stood at 2.84% YoY in May '24, and the target to keep inflation at 2.5% YoY (±1%) through the end of 2025, and (b) the dovish stance adopted by the Fed and the Bank of England, given the increasing likelihood of interest rate cuts in these major economies by the end of 2024. Notably, the Bank of Canada and the European Central Bank each lowered their key interest rates by 25 bps on Jun 5<sup>th</sup> and Jun 6<sup>th</sup>, '24, respectively, and the Swiss National Bank cut its key interest rate for the second time (twice by 25 bps) today, bringing it to 1.25%.

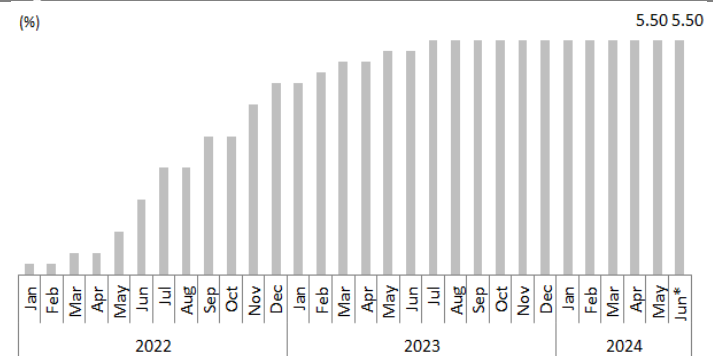
However, concerns about the Rupiah's depreciation trend over the past month, driven by capital outflows and worries about a rising fiscal deficit, have also garnered BI's attention. In response, BI has refined its countercyclical macroprudential policy on the Bank's Foreign Exchange Funding Ratio (RPLN) to strengthen the management of the bank's foreign funding in line with economic needs, effective from Aug 1<sup>st</sup>, '24. This policy includes (i) new regulations regarding the definition and scope of foreign funding for calculating the maximum short-term foreign funding limit (RPLN threshold); (ii) setting the maximum short-term foreign funding to bank capital ratio (RPLN threshold) at 30%, with a countercyclical parameter of 0% or ± 5%, based on BI's forward-looking assessment of financial cycles, external risks, and financial system stability risks; and (iii) establishing the current RPLN at 30% with a countercyclical parameter of 0%, subject to periodic review every six months or as needed. We hope this will mitigate the risk of sudden capital reversals. Additionally, we encourage BI to further enhance effective intervention and communication to ensure the stability of the Rupiah. Therefore, we also hope for at least one 25 bps reduction in the BI Rate by the end of 2024.

Table 1. Interest Rate Data

Indicators	21-Jun-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	4.25	4.50	(25.0)	0.0
United Kingdom	5.25	5.25	0.0	0.0
Japan	0.10	0.10	0.0	10.0
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	6.25	6.25	0.0	25.0
<b>Global Monetary Policy Change (in number of countries)</b>				
Easing	12	9		
Unchanged	28	20		
Tightening	0	4		
<b>Average International Interest Rate (in %)</b>				
USD LIBOR -1 Month	5.46	5.44	2.2	31.7
USD LIBOR -3 Months	5.61	5.59	2.1	20.9
USD LIBOR -6 Months	5.71	5.72	(0.4)	21.2
<b>Domestic Interbank Money Market (in %)</b>				
INDONIA	6.13	5.94	18.3	66.7
JIBOR - 1 Month	6.90	6.71	18.8	50.0
JIBOR - 3 Months	7.18	6.99	19.1	42.1
JIBOR - 6 Months	7.29	7.11	18.5	41.4
JIBOR - 12 Months	7.45	7.25	19.9	37.2

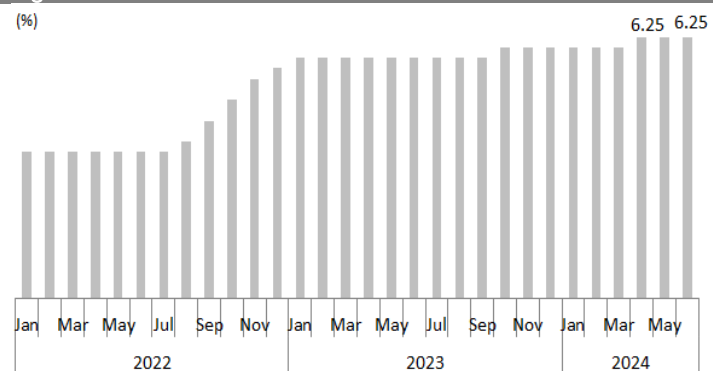
Sources : Each Central Bank and GlobalRates – treated (2024)

Fig 1. Fed Rate



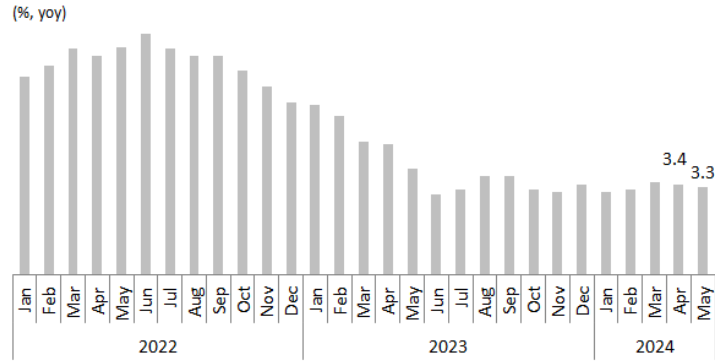
Source: The Fed – treated (2024)

Fig 2. BI7DRR



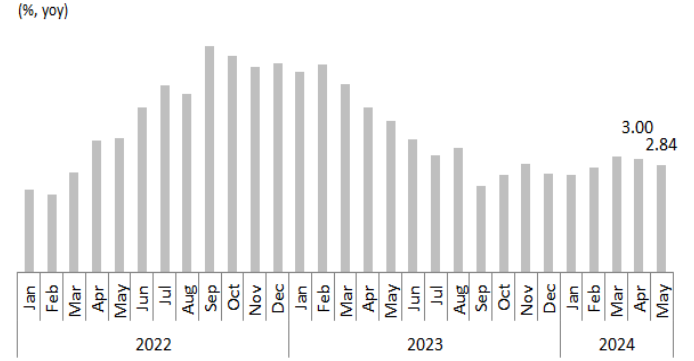
Source: Bank Indonesia – treated (2024)

Fig 3. US CPI Inflation



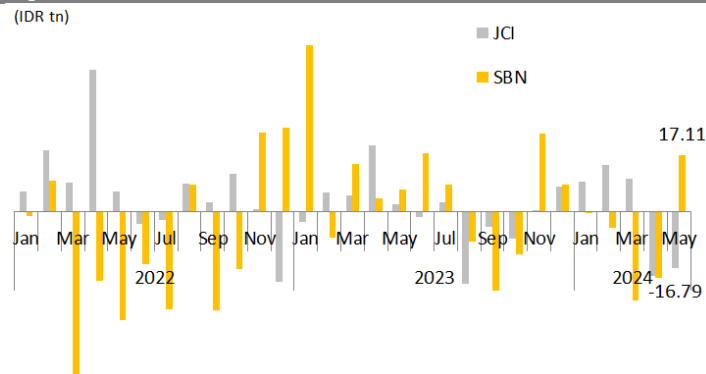
Source : US BLS – treated (2024)

Fig 4. Indonesia CPI Inflation



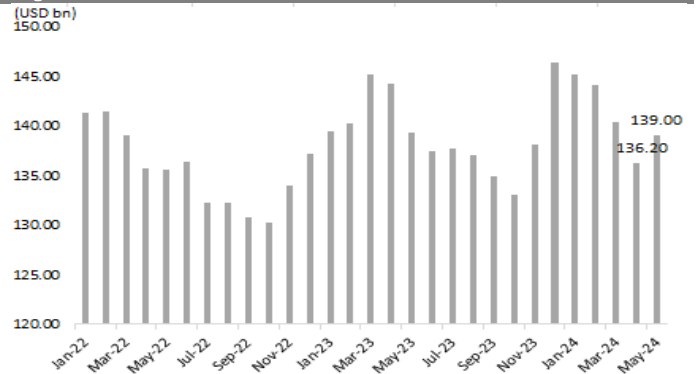
Source : BPS – treated (2024)

Fig 5. Indonesia Portfolio Flow



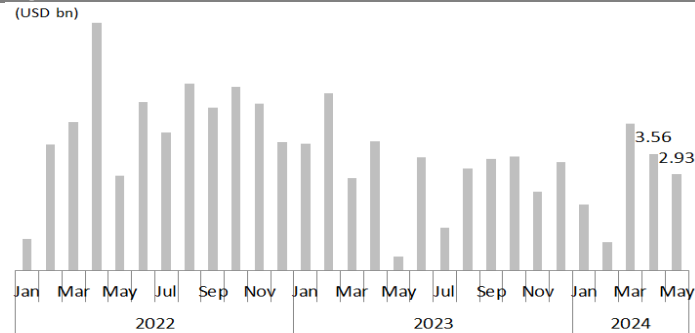
Source : Bloomberg – treated (2024)

Fig 6. Indonesia FX Reserves



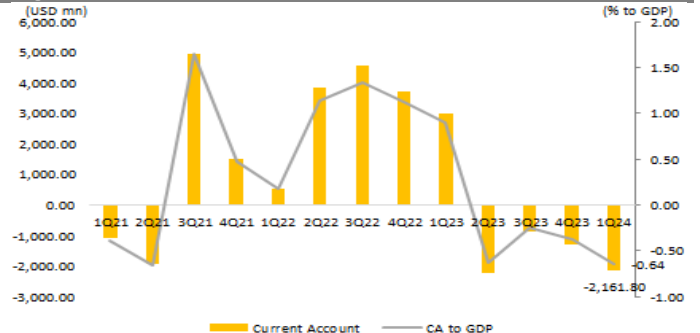
Source : BI – treated (2024)

Fig 7. Indonesia Trade Balance



Source : BI – treated (2024)

Fig 8. Indonesia Current Account



Source : BI – treated (2024)

Table 2. Fed Rate Probabilities, as of 21 Jun '24

MEETING DATE	MEETING PROBABILITIES								
	325-250	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
31-Jul-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.3%	89.7%
18-Sep-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.4%	59.5%	34.1%
7-Nov-24	0.0%	0.0%	0.0%	0.0%	0.2%	2.3%	25.1%	50.6%	22.1%
18-Dec-24	0.0%	0.0%	0.0%	0.0%	1.7%	19.4%	44.2%	29.2%	5.5%
29-Jan-25	0.0%	0.0%	0.0%	1.0%	12.4%	34.5%	35.1%	14.8%	2.2%
19-Mar-25	0.0%	0.0%	0.7%	8.5%	26.9%	34.9%	21.8%	6.5%	0.7%
30-Apr-25	0.0%	0.3%	4.3%	17.1%	30.6%	28.8%	14.7%	3.8%	0.4%
18-Jun-25	0.2%	2.8%	12.1%	25.4%	29.5%	20.1%	8.0%	1.7%	0.2%

Source : CME Group – treated (2024)

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