

The BI Rate Remains at 6.25%

Bank Indonesia (BI) has maintained the BI Rate at 6.25% (Cons: 6.25%, KBVS's: 6.25%, Prev: 6.25%) for the past three months, with the Deposit Facility rate stayed at 5.50%, and the Lending Facility rate held steady at 7.00%. This decision appears consistent with BI's pro-stability and pro-growth policies. In its latest RDG, BI forecasts that inflation will reach 2.9% YoY by the end of 2024, still within the target range of 2.5±1% until late 2025. Concurrently, BI projects economic growth for 2024 to be between 4.7% YoY and 5.5% YoY, amidst an expected increase in the fiscal deficit from 2.3% to 2.7% of GDP in 2024. Additionally, BI anticipates stronger export performance in late 2024 driven by heightened demand from key trading partners, particularly China, India, and the European Union. However, BI also forecasts current account deficit to continue in 2Q24 onwards, possibly ranging from -0.1% to -0.9% of GDP through late 2024.

During this RDG, BI also highlighted that the financial system's resilience remains robust. This is evidenced by May '24 data showing the Liquid Assets to Third Party Funds (AL/DPK) ratio at 25.36% (Prev: 25.78%), Capital Adequacy Ratio (CAR) at 26.14% (Prev: 25.97%), and Banking Non-Performing Loans (NPL) gross standing at 2.34% (Prev: 2.33%) and net NPL at 0.79% (Prev: 0.81%). Moreover, with Credit growth in Jun '24 reaching 12.36% YoY (Prev: 12.15% YoY) and Currency in Circulation (M1) in May '24 increasing by 6.82% YoY (Prev: 6.61% YoY), thus BI contends that there is no crowding-out effect in Indonesia. Simultaneously, Governor Perry emphasized the coordination to provide short-term liquidity through BI securities (SRBI, SVBI, and SUVBI), while the government issues Government Securities (SBN) in the secondary market with BI's continued presence.

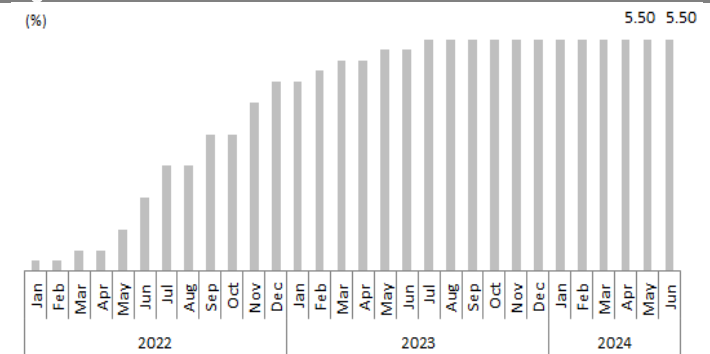
Going forward, we interpret that BI will continue to optimize its securities instruments, proceed with triple interventions, and strengthen the BI term repo as well as its competitive FX swaps. Consistent with its commitment to remain active in both the SBN and exchange rate markets, BI aims to ensure stability. We expect this to maintain a more guarded movement in SUN yields. Additionally, despite BI projecting the Fed Rate cut to occur in Nov '24, we anticipate a potential earlier reduction in the Fed Rate as early as Sep '24, allowing BI to likewise lower its BI Rate in the same month.

Table 1. Interest Rate Data

Indicators	17-Jul-24		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
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
Global Monetary Policy Change (in number of countries)				
Easing	5	12		
Unchanged	10	28		
Tightening	0	0		
Average International Interest Rate (in %)				
USD LIBOR -1 Month	5.44	5.46	(2.0)	3.0
USD LIBOR -3 Months	5.57	5.61	(4.0)	(4.0)
USD LIBOR -6 Months	5.64	5.71	(7.0)	(22.0)
Domestic Interbank Money Market (in %)				
INDONESIA	6.07	6.13	(5.8)	6.9
JIBOR - 1 Month	6.90	6.90	0.0	51.0
JIBOR - 3 Months	7.18	7.18	0.2	43.3
JIBOR - 6 Months	7.30	7.29	0.1	42.6
JIBOR - 12 Months	7.44	7.45	(0.7)	39.5

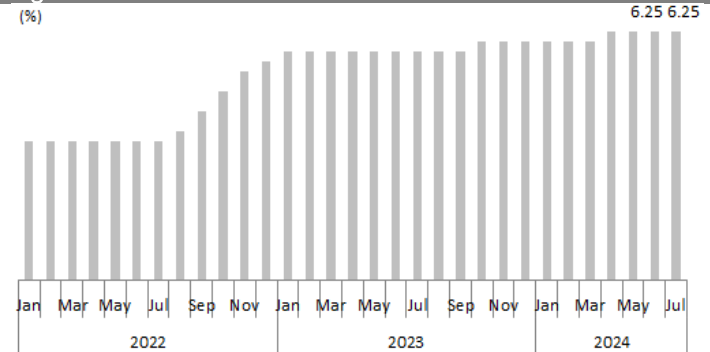
Sources : Each Central Bank and GlobalRates – treated (2024)

Fig 1. Fed Rate



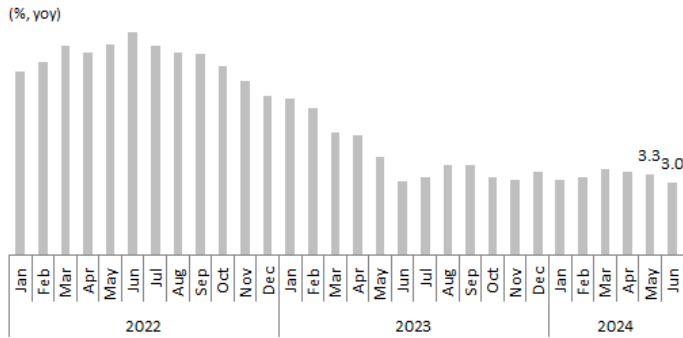
Source: The Fed – treated (2024)

Fig 2. BI7DRR



Source: Bank Indonesia – treated (2024)

Fig 3. US CPI Inflation



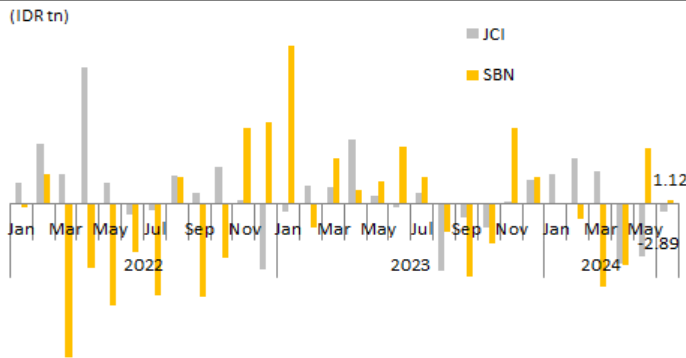
Source : US BLS – treated (2024)

Fig 4. Indonesia CPI Inflation



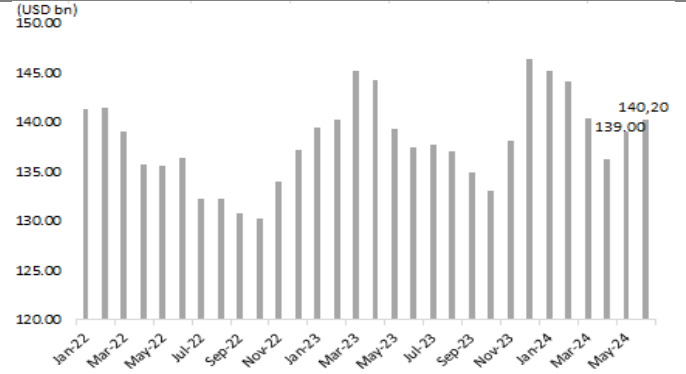
Source : BPS – treated (2024)

Fig 5. Indonesia Portfolio Flow



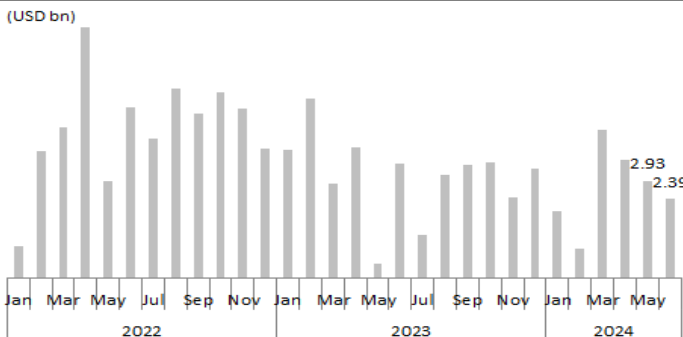
Source : Bloomberg – treated (2024)

Fig 6. Indonesia FX Reserves



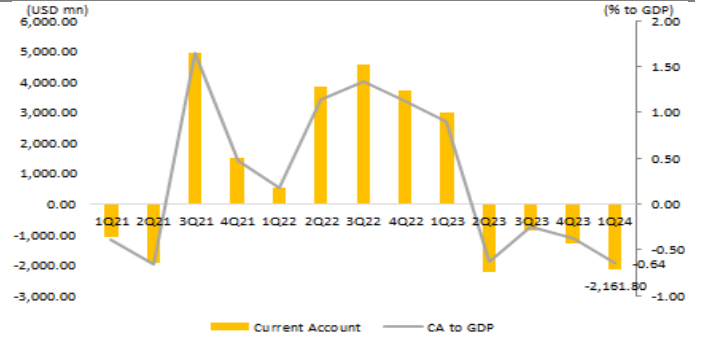
Source : BI – treated (2024)

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 17 Jul '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%	6.7%	93.3%
18-Sep-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.7%	93.3%	0.0%
7-Nov-24	0.0%	0.0%	0.0%	0.0%	0.0%	4.3%	62.2%	33.5%	0.0%
18-Dec-24	0.0%	0.0%	0.0%	0.0%	3.8%	55.5%	36.8%	3.9%	0.0%
29-Jan-25	0.0%	0.0%	0.0%	2.9%	43.9%	41.0%	11.3%	0.9%	0.0%
19-Mar-25	0.0%	0.0%	2.4%	35.7%	41.6%	17.2%	3.0%	0.2%	0.0%
30-Apr-25	0.0%	1.4%	22.0%	39.2%	27.2%	8.8%	1.3%	0.1%	0.0%
18-Jun-25	1.0%	15.7%	33.9%	30.9%	14.5%	3.6%	0.5%	0.0%	0.0%

Source : CME Group – treated (2024)

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