

BI7DRR Maintained at 5.75%: Focus on Rupiah Stabilization

As a manifestation of time consistency and procyclical policy, Bank Indonesia (BI) has maintained the BI7DRR at 5.75% (Cons: 5.75%, KBVS: 5.75%, Prev: 5.75%). This decision is underpinned by manageable inflation which remains intact with BI's inflation expectations of 2.9% YoY by the end of 2023. This determination is accompanied by a monetary policy focus aimed at bolstering the stabilization of the Rupiah to mitigate the ripple effects of global financial market uncertainties. Concurrently, this policy is also executed to maintain macroeconomic and financial sector stability, stimulate domestic credit/financing in downstream sectors (minerals and coal; agriculture, livestock, and fisheries); housing (including affordable housing); tourism; inclusivity (including SMEs, KUR); and ultra micro (UMI), as well as green economy initiatives. The expectation is that these conditions will support Rupiah stability and exports, averting current account deficit risks as observed in 2Q23, while ultimately fostering economic growth.

Thus, BI will support FX liquidity by effectively implementing the Foreign Exchange Receipt from Natural Resource Export (DHE SDA) and initiating the issuance of BI Rupiah Securities (SRBI) starting on 15 Sep '23. SRBI is designed to deepen the financial market, particularly in the short-term segment (with durations ranging from 1 week to 12 months), utilizing underlying assets in the form of SBN held by BI. Additionally, SRBI will be accompanied by intensified BI interventions in the spot market and Rupiah Non-Deliverable Forwards (DNDF). It is anticipated that this will be complemented by other fiscal and macroprudential policies.

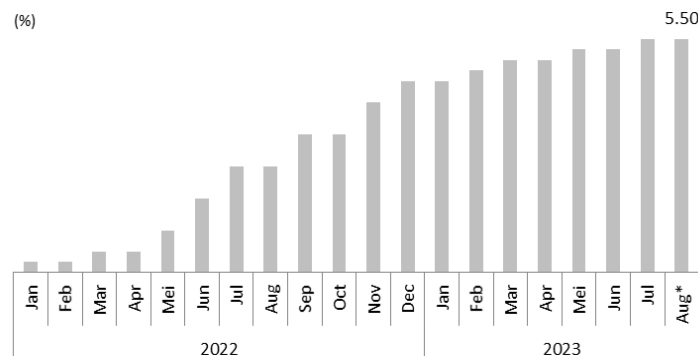
Considering the heightened risk perception towards Indonesian investments due to global volatility, which has resulted in a 1.26% Rupiah depreciation and a 0.68% reduction in the Indonesian Composite Bond Index (ICBI) from 31 Jul to 24 Aug '23, we are of the view that these policies are prudent. We anticipate that these measures will be supported by continued favorable domestic liquidity, evident in the high third-party funds to deposit ratio (AL/DPK) of 26.57% in Jul '23 (prev: 26.73%). Furthermore, we view BI's actions positively, aimed at preserving risk perception and maintaining the attractiveness of domestic asset portfolio yields, especially SBN. Consequently, we still anticipate that the possibility of a reduction in the BI7DRR remains open throughout the remainder of 2023.

Table 1. Interest Rate Data

Indicators	24-Aug-23		Monthly Changes (in bps)	YTD Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	5.50	5.25	25.0	75.0
European Union	4.25	4.00	25.0	150.0
United Kingdom	5.25	5.00	25.0	150.0
Japan	-0.10	-0.10	0.0	0.0
China	3.45	3.55	(10.0)	(10.0)
India	6.50	6.50	0.0	25.0
Thailand	2.25	2.00	25.0	75.0
Philippines	6.25	6.25	0.0	75.0
Indonesia	5.75	5.75	0.0	25.0
Global Monetary Policy Change (in number of countries)				
Easing	6	11		
Unchanged	37	55		
Tightening	20	26		
Average International Interest Rate (in %)				
USD LIBOR - Overnight	na	5.06	na	na
USD LIBOR - 1 Month	5.43	5.41	1.7	101.1
USD LIBOR - 3 Months	5.64	5.61	3.2	83.1
USD LIBOR - 6 Months	5.88	5.86	1.8	72.1
USD LIBOR - 12 Months	na	6.04	na	na
Domestic Interbank Money Market (in %)				
INDONIA	5.59	6.00	(40.7)	97.1
JIBOR - 1 Month	6.40	6.39	0.6	59.9
JIBOR - 3 Months	6.74	6.75	(0.9)	55.2
JIBOR - 6 Months	6.86	6.87	(1.3)	15.9
JIBOR - 12 Months	7.02	7.05	(3.6)	13.5

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

Fig 1. Fed Rate



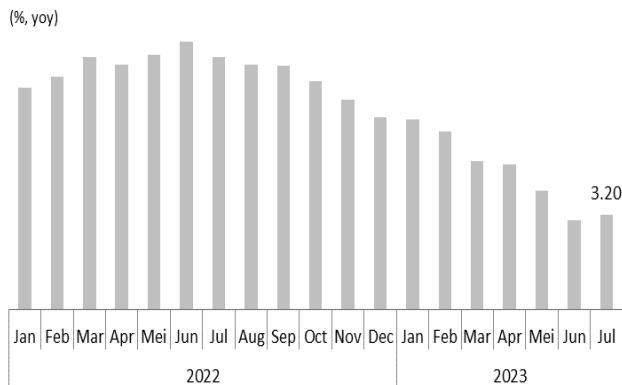
Source: The Fed – treated (2023)

Fig 2. BI7DRR



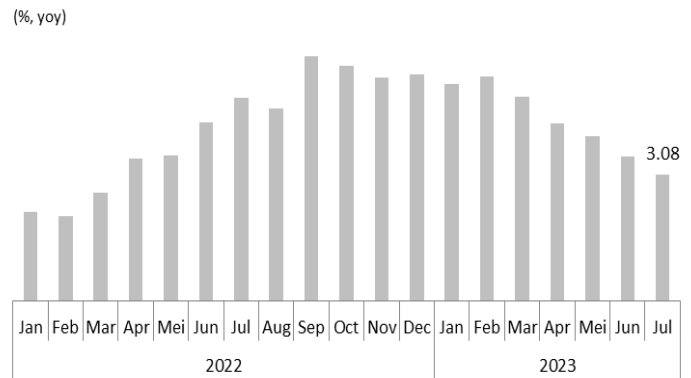
Source: Bank Indonesia – treated (2023)

Fig 3. US CPI Inflation



Source : BLS – treated (2023)

Fig 4. Indonesia CPI Inflation



Source : BPS – treated (2023)

Table 2. Fed Rate Probabilities, as of 24 August 2023

MEETING DATE	MEETING PROBABILITIES										
	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600
20-Sep-23				0.0%	0.0%	0.0%	0.0%	0.0%	86.5%	13.5%	0.0%
1-Nov-23	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	57.7%	37.8%	4.5%
13-Dec-23	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	56.0%	34.9%	4.1%
31-Jan-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	15.5%	51.6%	28.6%	3.3%
20-Mar-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	7.1%	30.7%	41.9%	17.9%	1.9%
1-May-24	0.0%	0.0%	0.0%	0.0%	0.2%	3.6%	18.4%	36.1%	30.4%	10.2%	1.0%
12-Jun-24	0.0%	0.0%	0.0%	0.1%	2.4%	13.2%	29.9%	32.4%	17.3%	4.2%	0.3%
31-Jul-24	0.0%	0.0%	0.1%	1.7%	9.8%	24.6%	31.6%	22.1%	8.4%	1.6%	0.1%
18-Sep-24	0.0%	0.1%	1.3%	7.8%	20.9%	29.9%	24.5%	11.8%	3.3%	0.5%	0.0%
7-Nov-24	0.0%	0.8%	5.4%	16.1%	26.6%	26.5%	16.5%	6.4%	1.5%	0.2%	0.0%
18-Dec-24	0.6%	3.8%	12.4%	23.0%	26.5%	19.9%	9.9%	3.2%	0.6%	0.1%	0.0%

Source : CME Group – treated (2023)

Table 3. Meeting Calendar The Fed (FOMC) and Bank Indonesia (RDG-BI) in 2023

No	Month	FOMC Meeting	RDG-BI
1	January		18 – 19 Jan
2	February	31 Jan – 1 Feb	15 – 16 Feb
3	March	21 – 22 Mar	15 – 16 Mar
4	April		18 – 19 Apr
5	May	2 – 3 May	24 – 25 ay
6	June	13 – 14 Jun	21 – 22 Jun
7	July	25 – 26 Jul	24 – 25 Jul
8	August		23 – 24 Aug
9	September	19 – 20 Sep	20 – 21 Sep
10	October		18 – 19 Oct
11	November	31 Oct – 1 Nov	22 – 23 Nov
12	December	12 – 13 Dec	20 – 21 Dec

Sources : The Fed and Bank Indonesia – treated (2023)

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