

Indonesia Watch

BI Review: No change; Overall tone now neutral

No change to policy rate; Overall tone now neutral

BI kept its policy rate at 6% for the 3rd straight month as widely expected. Overall tone was neutral in our view, with BI seemingly open to rate cuts if it sees firmer gains in the IDR and CPI. This marked a clear shift from the previous cautious tone, in our view.

Key highlights from BI statement/briefing

#1: 40bp downgrade in inflation forecasts. BI sees headline and core inflation at 2.8% and 2.1% in 2024, below the Nov-23 forecasts of 3.2% and 2.5%.

#2: No mention of upside inflation risks. This represents a dial-back from earlier meetings. In [Nov-23](#) (see report), BI cited three sources of risks (food, energy and imported inflation). In [Dec-23](#) (see report), BI only cited one (food). BI may have taken comfort from recent food price trends. Daily data show prices of red chili pepper & cayenne retreating from the peak in mid-Dec (and closer to levels in 2nd half of Nov). That said, prices of red onions are on an uptrend, and should be closely monitored (Exhibit 1).

#3: Less shallow Fed rate cut trajectory penciled in. BI now forecasts 75bp of cuts in 2H24 (vs. expectation of 50bp of cut in Dec-23), which is still more conservative vs. ours and the markets. Language on the FFR has also been dialed back, with BI expecting it to remain “elevated in 1H” (vs. mention of “higher for longer” in Dec-23).

#4: Greater openness to rate cuts. BI maintained that it remains patient and said that it wants to see firmer gains in the IDR and CPI before easing. This contrasts with Dec-23, when it said that it will not rush to ease even if these two factors materialize.

#5: Updated projections for 2024: BOP is expected to remain in surplus, while loan growth is seen at 10-12 % (2023: 10.4%).

#6: SBRI. Foreign ownership currently stands at IDR75tn, or around 25% of total outstanding. BI intends to increase SBRI issuances further to strengthen liquidity in the secondary market. See Exhibit 2 and Exhibit 3 for past auction results.

#7: Policy announcements on (most) Wednesdays & before the Fed partly reflect BI’s greater confidence in their US forecasts & outlook. See Exhibit 4 for policy calendar.

BofA: Still expecting rate cuts to commence from March

We highlighted in Dec-23 that BI has set a low hurdle to cut rates earlier, given its rather cautious outlook on the Fed and domestic inflation. In this meeting, the narrative has clearly shifted towards potentially earlier easing. We reiterate our (likely) out-of-consensus call for BI to begin quarterly rate cuts from Mar (in line with our Fed’s rate cut trajectory), which is contingent on IDR remaining stable. In the coming weeks, we keep a close eye on (1) Jan-24 CPI print (1st Feb), which will incorporate new weights, (2) 4Q23 GDP (5th Feb) and (3) General Elections (14th Feb) (see also [Indonesia Watch: Elections: Prabowo’s macro policy agenda](#)).

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GEM Economics
Asia | Indonesia

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Glossary

BI: Bank Indonesia

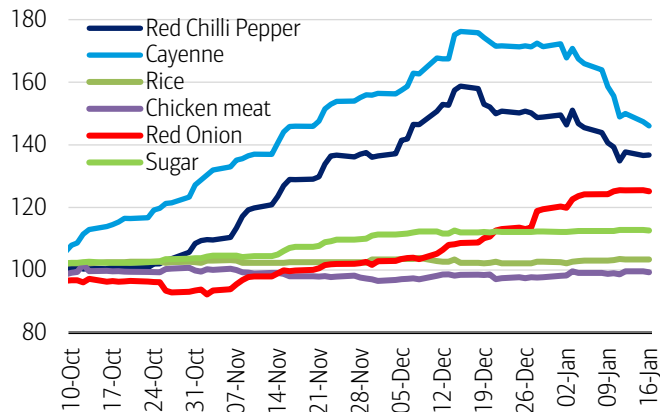
FFR: Fed Funds Rate

SRBI: Bank Indonesia Rupiah Securities

CPI: Consumer Price Index

Exhibit 1: Daily food price trends (Aug 2023 =100)

Prices of red onion on the rise, while red chili & cayenne pepper retreated

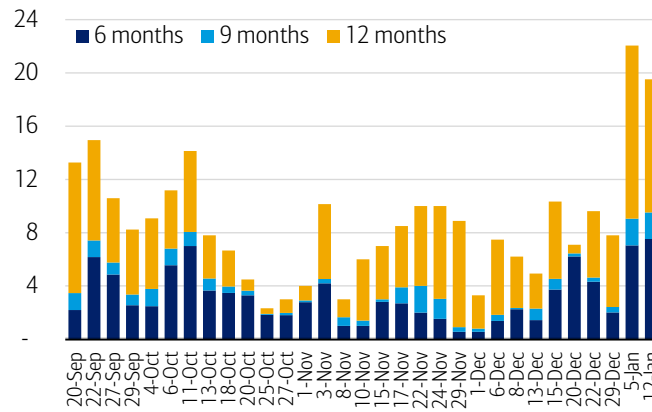


Source: BofA Global Research, PIHPS, Haver **Note:** We refer to the average prices for traditional and modern sources

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Exhibit 2: SRBI auction results (IDRtn)

Issuance higher in recent auctions

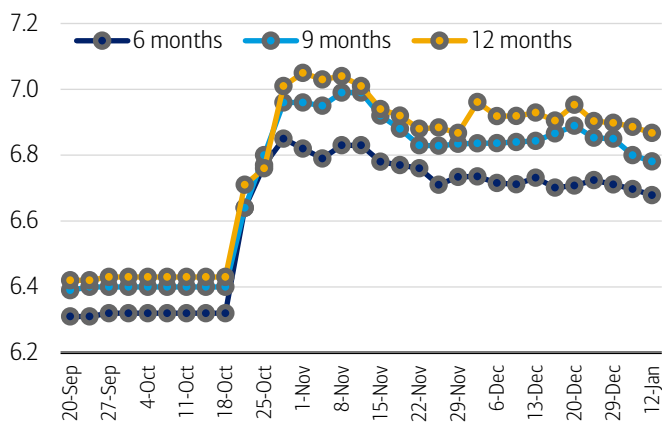


Source: BofA Global Research, BI **Note:** SRBI auction is now conducted once a week (instead of twice previously)

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Exhibit 3: SRBI awarded interest rates (%)

Awarded interest rates edged lower in recent auctions



Source: BofA Global Research, BI

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Exhibit 4: BI vs. Fed policy meeting dates (Asia hours)

BI meetings in Mar/Sep/Dec are now before (rather than after) the Fed

| Month | BI | Fed | BI before/after Fed? |
|-------|----------|-------|----------------------|
| Jan | 17 (Wed) | 1 Feb | |
| Feb | 21 (Wed) | | |
| Mar | 20 (Wed) | 21 | Before |
| Apr | 24 (Wed) | | |
| May | 22 (Wed) | 2 | |
| Jun | 20 (Thu) | 13 | |
| Jul | 17 (Wed) | | |
| Aug | 21 (Wed) | 1 | |
| Sep | 18 (Wed) | 19 | Before |
| Oct | 16 (Wed) | | |
| Nov | 20 (Wed) | 8 | |
| Dec | 18 (Wed) | 19 | Before |

Source: BofA Global Research, BI, Bloomberg

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