

Macroeconomics Indicator

	2023	2024F	2025P
GDP growth (%YoY)	5.05	5.05	5.23
Inflation (%YoY)	2.61	2.73	3.49
BI rate (% Year-end)	6.00	6.50	6.00
Rp/US\$ (Average)	15,244	16,015	16,218
CA deficit (% of GDP)	-0.1	-0.6	-0.8
Fiscal deficit (% of GDP)	1.65	2.28	2.55

Unchanged BI rate suggests new Rupiah equilibrium level

- BI decided to keep the BI rate unchanged at 6.25% despite continuous Rupiah depreciation at -9.6% yoy in mid Jun24 (-8.2% yoy in May24).
- BI keep its economic growth and inflation target unchanged at 4.7-5.5% and c.1.5-3.5% for FY24.
- We see the decision implicitly suggests the new acceptable Rupiah level at around c.Rp16k/US\$. We think another 25bp rate increase is possible.

Unchanged BI rate despite depreciating Rupiah

Bank Indonesia (BI) decided to keep BI rate unchanged at 6.25% along with the deposit/lending facility at 5.5/7%. This was in-line with consensus but differ with our expectation. Furthermore, no specific assessment on Rupiah (whether it is overvalued or undervalued) was mentioned during the press conference. Recently, the Rupiah remained under pressure at -1.8% mom/-9.6% yoy to Rp16.4k/US\$ (from +0.3% mom/-8.2% yoy in May24 at Rp16k/US\$). Nevertheless, we think that the combination of unchanged BI rate and increasing FX reserves suggests accepted Rupiah level at around c.Rp16k/US\$ as the new equilibrium.

FFR one time cut in FY24, macro variables unchanged

On the FFR expectation, BI expects of just one cut at 25bp in Dec24 as their baseline scenario (previously the FFR cut expectation is at c.75bp in 2H24). On the alternative scenario, it puts no FFR cut in FY24 but 25-50bp FFR cut in FY25. On domestic economy, it kept (1) GDP growth expectation at c.4.7-5.5%, (2) inflation expectation at c.1.5-3.5% and (3) current account deficit at c.-0.1% to -0.9% of GDP in FY24.

SRBI gained more traction

SRBI issuance jumped by Rp147.5tr to Rp558.2tr in May24 (Rp410.7tr in Apr24). Since its first introduction in Sep23, the SRBI has absorbed c.Rp61tr/month in average. In terms of yield, the SRBI offers c.7.1-7.3% with maximum tenor of 1 year. In addition, the foreign ownership proportion in SRBI reaches 27% of total or roughly Rp180tr. In general, the SRBI may suit the purpose of preventing capital outflow, but on the other hand it may also adversely impacted banking liquidity (crowding-out). Nevertheless, we are on the view that the positioning of the SRBI brings a net positive impact to the economy.

Resilient banking condition

On domestic banking situation, BI sees the banking liquidity to be ample as (1) the liquid asset to third party fund ratio stood at 25.8% in May24 (25.6% in Apr24), (2) CAR was at 26% and (3) NPL at 2.3% gross/0.8% net. In the meantime, private loan edged down to +12.5% yoy in May24 (+13.1% yoy in Apr24, loan growth target at 10-12% in FY24), while the third-party deposit inched up to +8.6% yoy (+8.15% yoy in Apr24).

Expect another 25bp increase in 2H24

We see the unchanged policy rate to be supportive for promoting more economic activity growth. However, we think another 25bp increase is possible before year-end, especially if there is another steep Rupiah depreciation event. Accordingly, we expect the Rupiah to average at Rp16k/US\$ in FY24 (Rp15.2k/US\$ in FY23).

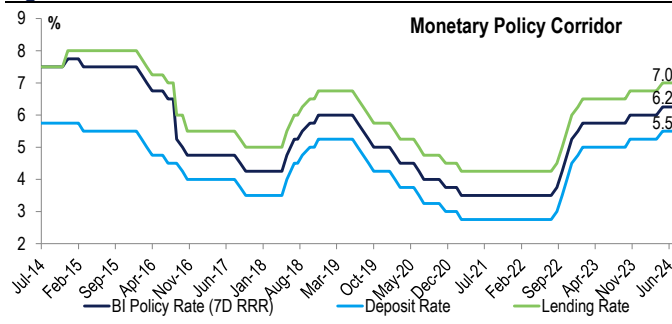
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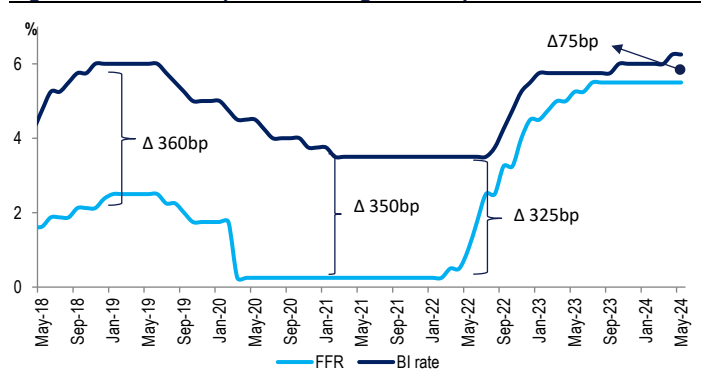
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Fig. 1: BI hold the BI rate at 6.25%



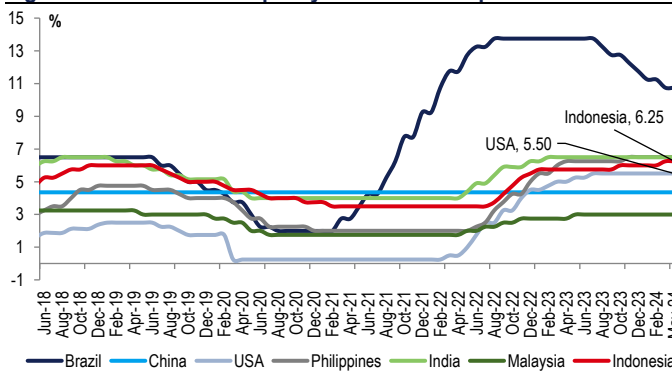
Source: BI, Indo Premier

Fig. 2: BI rate – FFR spread unchanged at 75bp



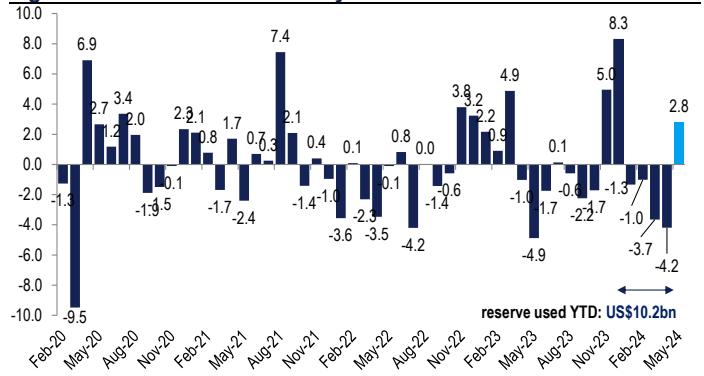
Source: BI, Indo Premier

Fig. 3: Indonesia nominal policy rate is still competitive



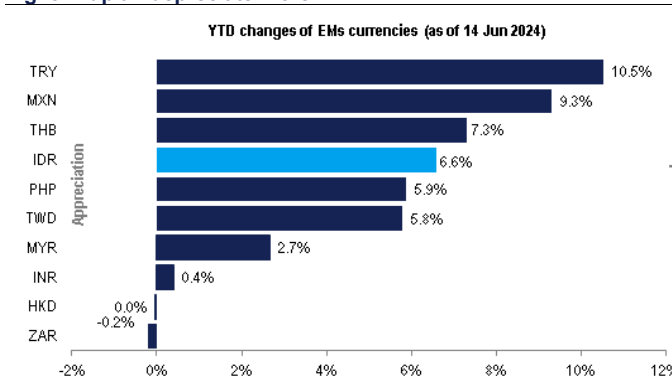
Source: Bloomberg, Indo Premier

Fig. 4: FX reserve reversed in May24



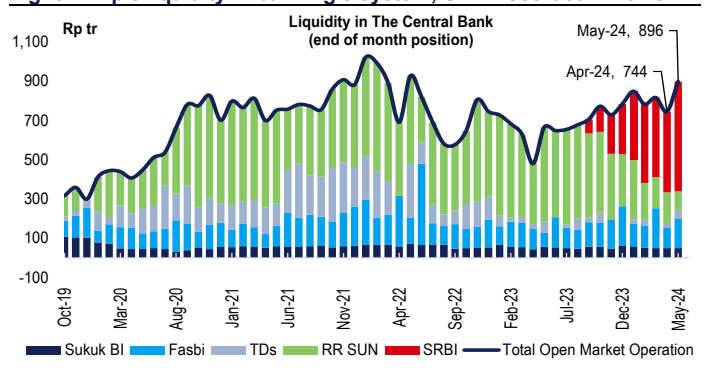
Source: Bloomberg, Indo Premier

Fig. 5: Rupiah depreciate more



Source: Bloomberg, Indo Premier

Fig. 6: Ample liquidity in banking's system; SRBI recorded inflows



Source: Bloomberg, Indo Premier

ANALYSTS CERTIFICATION

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