

25 April 2024

Macroeconomics Indicator

	2022	2023F	2024B
GDP growth (%YoY)	5.31	5.09	5.01
Inflation (%YoY)	5.51	2.52	2.32
BI rate (% Year-end)	5.50	6.00	6.00
Rp/US\$ (Average)	14,855	15,203	15,800
CA deficit (% of GDP)	+1.1	-0.5	-0.7
Fiscal deficit (% of GDP)	2.38	2.41	2.04

A positive surprise of 25bp hike

- BI decided to increase the BI rate by 25bp to 6.25% as a forward-looking policy aimed at protecting Rupiah from rising global uncertainty.
- BI change its FFR baseline scenario to one time increase in FY24 and give guidance on Rupiah to be at Rp15.8k/US\$ in the 4Q24.
- We see BI rate increase to be imperative to promote Rupiah stability and expect another 25bp increase in the near-term.

25bp BI rate hike aimed to maintain Rupiah stability

BI decided to increase the BI rate by 25bp to 6.25% along with deposit/lending facility to 5.5/7.0% aimed to maintain Rupiah stability. In parallel, the higher interest rate was also to mitigate imported inflation risk from escalating geopolitical tension. Furthermore, it guided that inflation will be on its target range at c. 2.5%±1% corridor in FY24, as harvest season normalization will bring food prices down. Lastly, it kept the economic growth projection at c. 4.7-5.5% in FY24. Indicating the economy's resiliency from higher interest rate costs.

FFR expectation revised to be a 25bp cut instead of 75bp

On the FFR expectation, it revised to just one time 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 expects no FFR cut in FY24 but 25-50bp FFR cut in FY25.

Rupiah is expected to gradually appreciate

On Rupiah, the guidance to the indicative exchange rates will be at (1) c.Rp16.2k in 2Q24, (2) c.Rp16k in 3Q24, and (3) c. Rp15.8k in 4Q24. We are on the view that the indicative exchange rates guidance is pointing to the implicit monetary policy stance going forward. Thus, we believe that more BI rate increase may be already in the pipeline.

BI pro-market instruments shall help stabilize the onshore US\$ supply

As an effort to strengthen the money market, BI forex instrument SVBI/SUVBI records a drop to US\$1.89bn/US\$334mn as per 23 Apr24 respectively (from US\$2.31bn /US\$387mn in Mar24). The decline points to more US\$ supply in the financial sector to provide more US\$ liquidity.

Resilient banking condition

On domestic banking situation, BI sees the banking liquidity to be ample as AL/DPK ratio stood at 27.2%, CAR was at 27.7% and NPL at 2.35% gross/0.82% net in Mar24. In the meantime, private loan grew robustly at +12.4% yoy in Mar24 (+11.28% yoy in Feb24), BI keep its private loan growth target at 10-12% in FY24.

Expect another 25bp increase to further guard the exchange rate; revising our exchange rate assumption to Rp15.8/US\$ from Rp15.1/US\$

We see the increase in the policy rate to be imperative and we think another 25bp increase is possible within the year to maintain the currency stability. This is due to the external pressure that made the use of FX reserves to be ineffective (total US\$6bn of reserves has been depleted as of Mar24) to guard the Rupiah volatility (tripled since end of Mar24 at around 4.0 index point to around 13.5 index point in mid-Apr24). In accordance, we revise our Rupiah expectation to Rp15.8k/US\$ yearly average from Rp15.1k/US\$ previously (Rp15.2k/US\$ in FY23).

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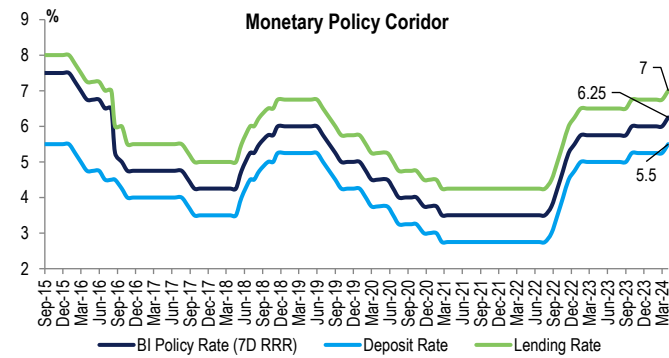
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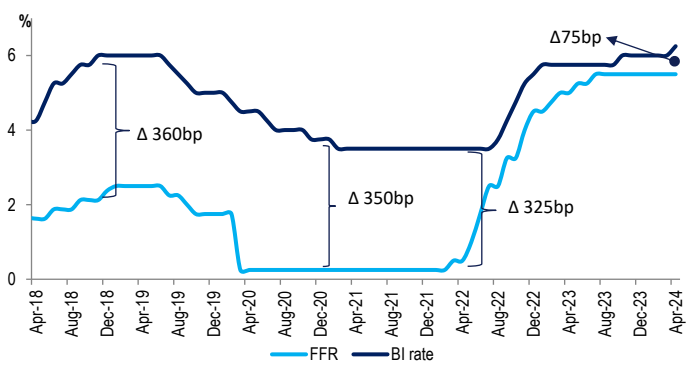
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Fig. 1: BI decided to increase BI rate by 25bp to 6.25%



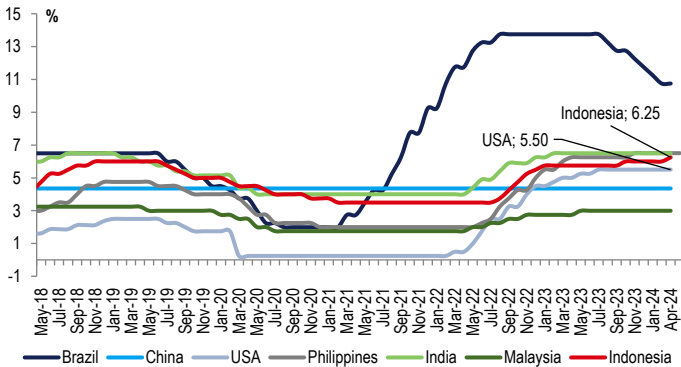
Source: BI, Indo Premier

Fig. 2: bringing higher BI rate – FFR spread to 75bp



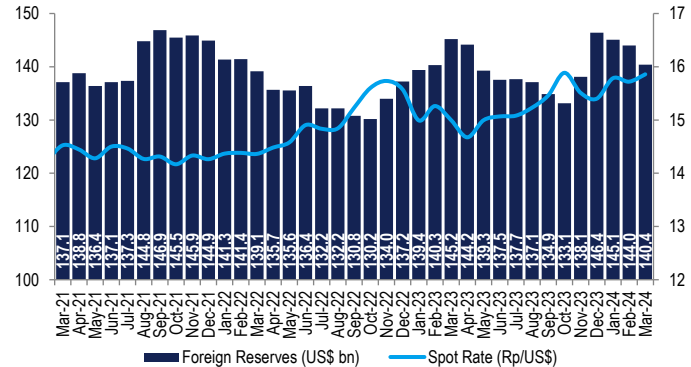
Source: BI, Indo Premier

Fig. 3: Indonesia nominal policy rate is competitive



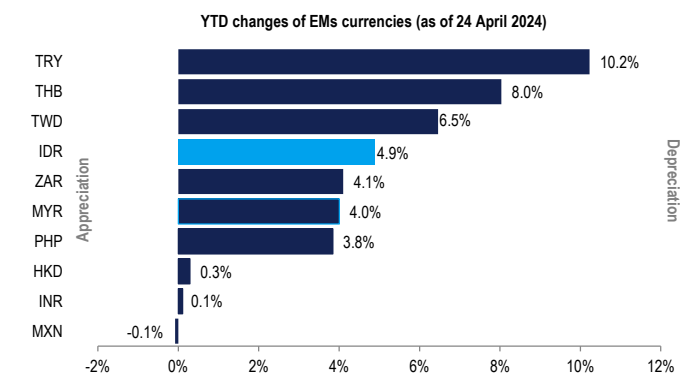
Source: Bloomberg, Indo Premier

Fig. 4: FX reserve on declining trend on Rupiah stabilization



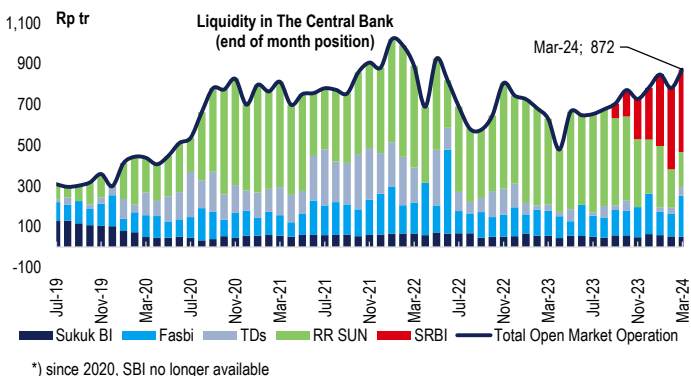
Source: Bloomberg, Indo Premier

Fig. 5: Rupiah depreciate further YTD



Source: Bloomberg, Indo Premier

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



Source: Bloomberg, Indo Premier

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

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