

**BI-Rate Increase 25 bps**

The 25 bps increase in the BI Rate to 6.25% (Cons: 6.00%, KBVS: 6.00%, Prev: 6.00%) as a pro-stability measure is viewed as a response to significant pressures on the Rupiah, which has depreciated by 2.5% against the USD over the past two weeks. These concerns are further exacerbated by: a) Escalating global geopolitical tensions; b) the smaller-than-expected Fed Rate cut of only 25 bps throughout 2024; c) a 1.6% increase in the DXY amid flight-to-safety measures and; d) weakening fundamentals of the Rupiah, indicated by a USD3.65 bn decrease in FX reserves during Mar '24 - see Fig.6, p.2 - despite higher trade surplus of USD4.5 bn (Prev: USD0.8 bn) - see Fig.7, p.2- during the same period. **We also see this as an encouragement to boost foreign investor appetite**, amidst much attractive USD LIBOR rates of 1-Month, 3-Month, and 6-Month at 5.43%, 5.58%, and 5.73% respectively on 16 Apr '24, as compared to the results of BI's DHE FX Term Deposit auction on the same day, with the same tenor and above USD10.0 mn, which stood only at 5.38%, 5.39%, and 5.37% respectively.

Nevertheless, in this BI RDG, we still observe a pro-growth stance undertaken by BI through the expansion of the **Macroprudential Liquidity Incentive Policy coverage** in supporting downstream sectors, construction and productive real estate, creative economy, automotive, trade, Electricity-Gas-Clean Water (LGA), and social services; with adjustments to the incentive amounts for each sector effective from 1 Jun '24. **We anticipate this to stimulate investment through further banking credit growth**, following 1Q24's investment credit growth, working capital, and consumption at 14.83% YoY, 12.30% YoY, and 10.22% YoY respectively. **Additionally, the push for the BI Rate hike is also seen as a preventive measure to manage inflation**, which has been increasing over the past three months, from 2.57% YoY in Jan '24 to 3.05% YoY in Mar '24, alongside the possibility of subsidized fuel prices hike.

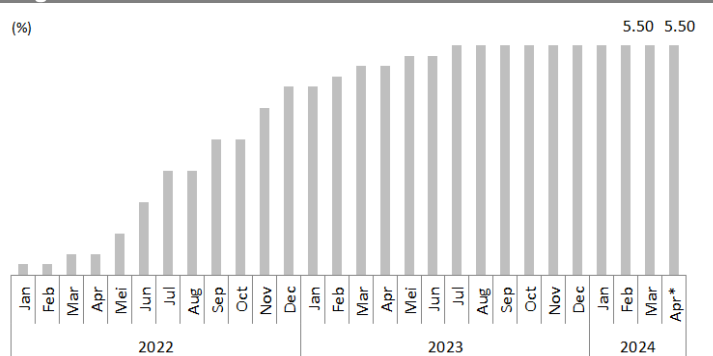
Looking ahead, we anticipate this BI-Rate hike to soon have a positive impact in making domestic instruments' yields more attractive, especially in USD basis, attracting capital inflows into the country, and driving Rupiah appreciation back below IDR16,000 per USD. Yet, at the same time, if Rupiah stability can be achieved, we expect the BI Rate to return to 5.75% by the end of 2024.

Table 1. Interest Rate Data

Indicators	24-Apr-24		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
<b>Policy Rate (in %)</b>				
United States	5.50	5.50	0.0	0.0
European Union	4.50	4.50	0.0	0.0
United Kingdom	5.25	5.25	0.0	0.0
Japan	0.00	-0.10	10.0	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	6.00	6.00	0.0	0.0
<b>Global Monetary Policy Change (in number of countries)</b>				
Easing	4	9		
Unchanged	20	26		
Tightening	7	8		
<b>Average International Interest Rate (in %)</b>				
USD LIBOR -1 Month	5.43	5.44	(1.3)	84.0
USD LIBOR -3 Months	5.58	5.59	(1.0)	68.5
USD LIBOR -6 Months	5.73	5.71	1.8	48.6
<b>Domestic Interbank Money Market (in %)</b>				
INDONESIA	5.42	5.87	(44.6)	32.5
JIBOR - 1 Month	6.65	6.65	0.4	37.9
JIBOR - 3 Months	6.93	6.93	0.2	28.1
JIBOR - 6 Months	7.05	7.05	(0.1)	29.1
JIBOR - 12 Months	7.19	7.19	0.3	22.3

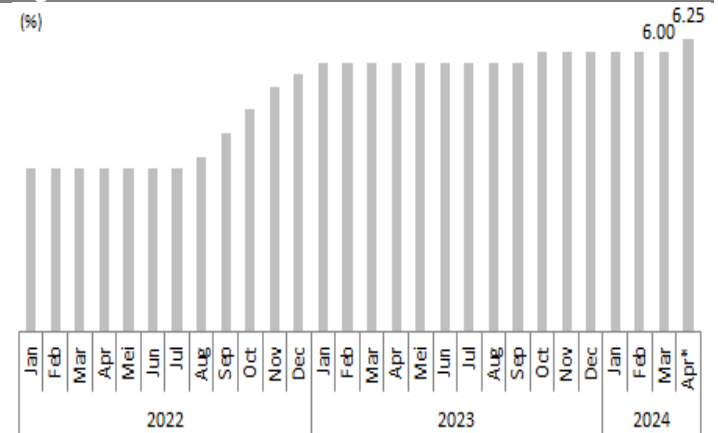
Sources : Each Central Bank and GlobalRates – treated (2024)

Fig 1. Fed Rate



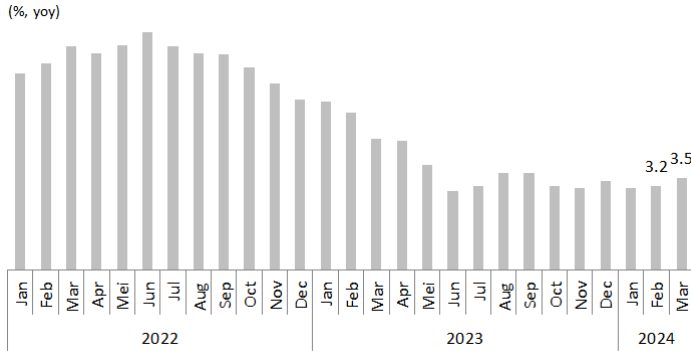
Source: The Fed – treated (2024)

Fig 2. BI7DRR



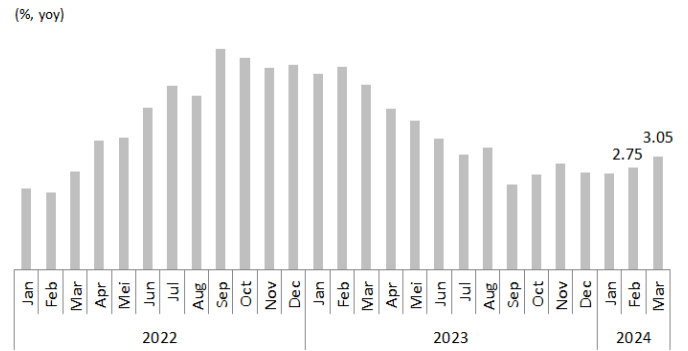
Source: Bank Indonesia – treated (2024)

Fig 3. US CPI Inflation



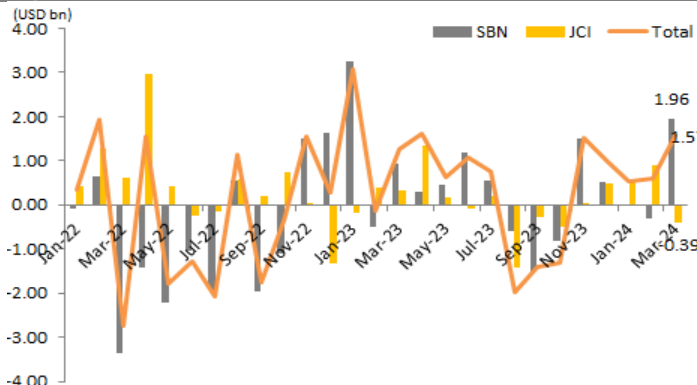
Source : US BLS – treated (2024)

Fig 4. Indonesia CPI Inflation



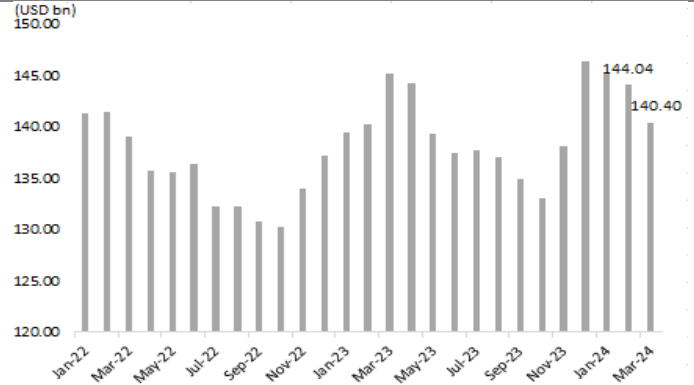
Source : BPS – treated (2024)

Fig 5. Indonesia Portfolio Flow



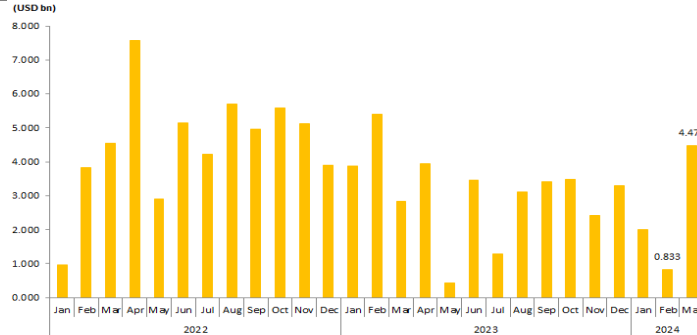
Source : Bloomberg – treated (2024)

Fig 6. Indonesia FX Reserves



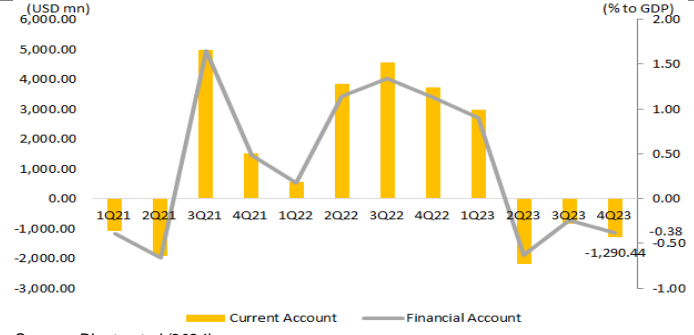
Source : BI – treated (2024)

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 24 Apr '24

MEETING DATE	MEETING PROBABILITIES							
	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
1-May-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.2%	94.8%
12-Jun-24	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	14.8%	84.6%
31-Jul-24	0.0%	0.0%	0.0%	0.0%	0.2%	5.3%	37.9%	56.6%
18-Sep-24	0.0%	0.0%	0.0%	0.0%	2.4%	19.6%	46.1%	31.7%
7-Nov-24	0.0%	0.0%	0.0%	0.7%	7.1%	26.9%	42.2%	23.0%
18-Dec-24	0.0%	0.0%	0.3%	3.6%	16.1%	33.9%	33.5%	12.5%
29-Jan-25	0.0%	0.1%	1.4%	7.5%	21.6%	33.7%	27.0%	8.6%
19-Mar-25	0.0%	0.6%	4.0%	13.5%	26.7%	30.9%	19.3%	5.0%
30-Apr-25	0.2%	1.6%	6.7%	17.3%	27.9%	27.5%	15.1%	3.6%

Source : CME Group – treated (2024)

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