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## Bank Indonesia on Hold

- Bank Indonesia (BI) kept its policy rate unchanged at 6.00% at its November 23 meeting, in line with consensus but against our view of a 25bp hike.
- With domestic GDP growth slowing, inflationary pressures under control and a sense that the US Federal Reserve will no longer hike its policy rate in 2023, BI will be more comfortable keeping its policy rate unchanged in December.
- We, therefore, no longer expect BI to hike its policy rate in 2023 with rate cuts forthcoming in 2024 provided the US Fed signals a more dovish bias.

### BI Stayed Put

Bank Indonesia (BI) kept its policy rate unchanged at 6.00% at its November 23 meeting, in line with consensus but against our view of a 25bp hike. We had expected BI to follow through on its stance to mitigate against IDR depreciation risks, the main reason for the surprise 25bp rate hike in October.

Since BI's 19 October meeting, IDR gained over 1% versus USD. While these gains are positive, it is still modest compared to other regional currencies including KRW and THB. To that end, BI still sounded vigilant of IDR depreciation and capital flow risks at its 23 November meeting.

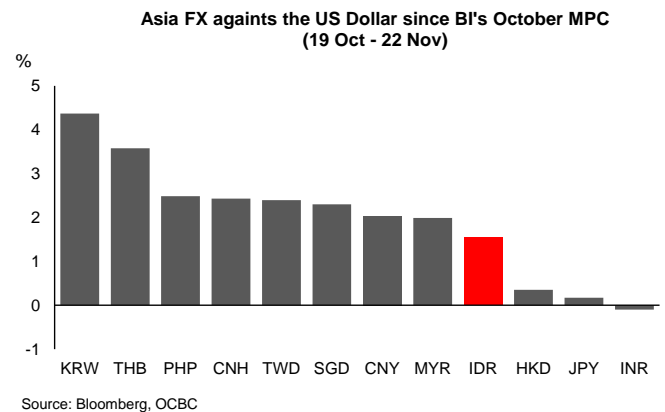
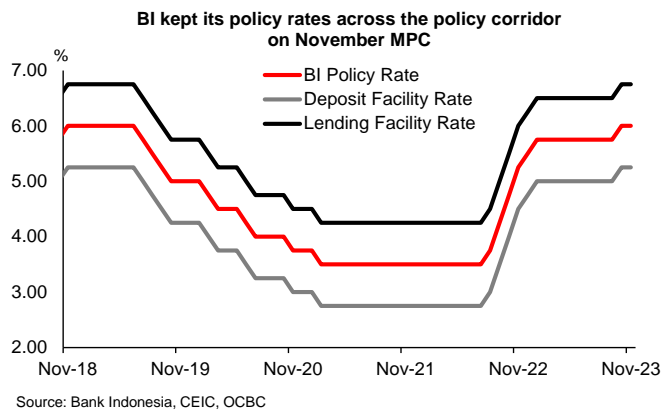
BI's outlook on global growth remained broadly unchanged as it expects slower growth in 2024 versus 2023. That said, it noted some improvements in the China growth forecast with the US economic activity remaining resilient. BI, importantly, sees a lower probability of US Fed rate hike in December (10%) relative to its previous meeting (40%). It does, however, expect the Fed to keep rates elevated for a longer period.

Domestically, BI's growth-inflation forecasts remain largely unchanged from its 19 October meeting. It maintained full year 2023 growth of 4.5% - 5.3%, with growth to remain solid in 4Q23 and 2024. Similarly, BI expects headline inflation to remain within its 2% - 4% in 2023 and 1.5% - 3.5% in 2024. It forecast for the current account forecast was unchanged at -0.4% to +0.4% of GDP this year.

### BI In Wait-And-See Mode

With domestic GDP growth showing signs of a slowdown (3Q23 GDP growth slowed to 4.9% YoY from 5.2% in 2Q23), inflationary pressures under control and most importantly, a sense that the US Federal Reserve will no longer hike its policy rate in 2023, BI will be more comfortable keeping its policy rate unchanged in December. We, therefore, no longer expect BI to hike its policy rate.

That said, slowing domestic economic growth in 2024 by our forecasts, lower inflation and impending Fed rate cuts from 2Q24 (in accordance with our house view) will allow BI room to lower its policy rate by a cumulative 125bp in 2024.



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