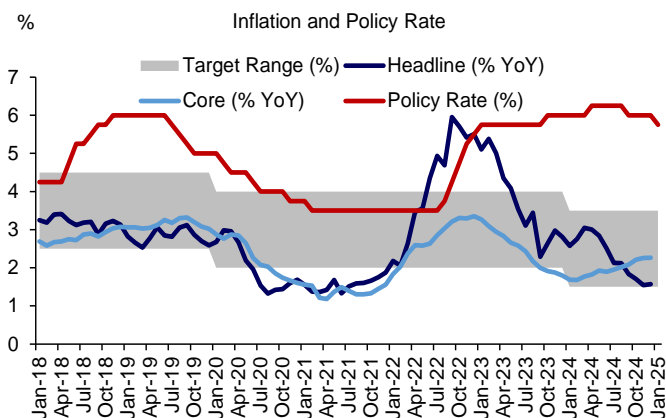
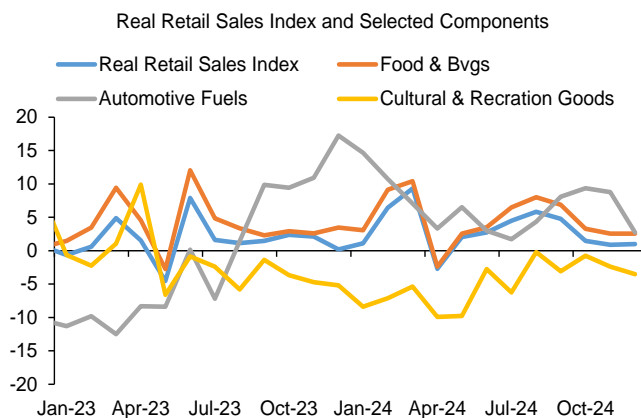


## Bank Indonesia: Insurance Cut, Not Easing Cycle



Sources: CEIC; Mizuho



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- On 15 January, Bank Indonesia (BI) delivered an unexpected 25bps cut. This is BI's second cut. And like the first (in September 2024), surprised markets by way of timing.
- Given BI's on-going concern about IDR-stability and IDR a good ~6% weaker against the greenback compared to December meeting (DXY is up by ~8%), a natural question is: *why a cut now?*
- *Our sense is that this is a pre-emptive "insurance cut", not a rejuvenated easing cycle.*
- For the record, BI premised decision on low inflation expectations and the **notable** (our emphasis) need to support growth. This squares with a **pre-emptive cut on growth concerns first, facilitated by diminished upside risks to inflation that is helped by watered-down VAT hike.**
- In their remarks, BI appeared to have seen some indications of downside risks to growth being realised and expect downside risks to continue into coming quarters.
- Notably, BI saw 2024 growth **lower than** the mid-point of 4.7-5.5% (previous remarks in December did not state the view of 2024 growth relative to mid-point), loan growth in 2024 was expected at 10.4% is below the mid-point of BI's 10-12% forecast range, while 2025 growth was revised slightly lower from 4.8-5.6% in December to 4.7-5.5%. Forecasted loan growth for 2025 was unchanged at 11-13%.
- While 2025 downward growth revision only represents only a slight 0.1% revision downwards, BI's decision follows a few weeks after the Indonesian government **watered-down the VAT hike on the back of cost-of-living concerns which may stretch consumers' wallets.** These developments allude to some worries on household spending. Indonesian consumers have been more discerning on their spending, with real retail spending on recreation/cultural goods contracting YoY since May 2023.
- **This cut suggests that the balance of risks may have tilted slightly towards growth.**
- **Crucially, it at least assumes that fresh bouts of USD strength will not destabilize the rupiah significantly. Interestingly, BI remarked that US government and Fed policy direction to have become clearer,** despite the volatility in US Treasury yields and repricing in Fed Fund Futures in recent weeks.
- Presumably, **this may be alluding to the assumption that Fed rates will go lower, although at a slower pace in 2024.** Accordingly, an eventual downward Fed policy trajectory may see some fading of USD strength in coming quarters. If so, this would also support a cut by BI at this juncture.
- To be clear, downside growth concerns do not unequivocally supplant rupiah stability priority. Notably, BI had announced that two new instruments for exporters' FX earnings are in plans.
- And so, **this cut is a calibration on shifting balance of risks, and not a prelude to an emphatic cutting**

*cycle*. Whereas **further cuts will be conditional on relative rupiah stability in the context of the Fed's prevailing stance and wider macro risks**.

- In addition, the costs/efficacy of associated potential intervention will also feature in Bank Indonesia's policy calculus.
- These factors considered, we retain our view that **BI's easing cycle will still be staggered**. That is to say **shifting back to a pause** before cutting again.
- As things stand (assuming no sudden sharp and sustained USD depreciation), *we do not expect another cut in Q1* (i.e. February and March meetings) as BI monitors the pass-through effects of its rate cut and spillovers to the IDR, barring any material downside surprise to growth.

	2024	2025				2026
	Q4	Q1	Q2	Q3	Q4	Q1
BI-Rate	6.00%	5.75%	5.50%	5.00%	4.75%	4.50%
USD/IDR	15710-16305 (16102)	15790-16600 (16250)	15900-16480 (16300)	15100-16380 (15650)	14710-15810 (15200)	14760-15750 (15230)

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