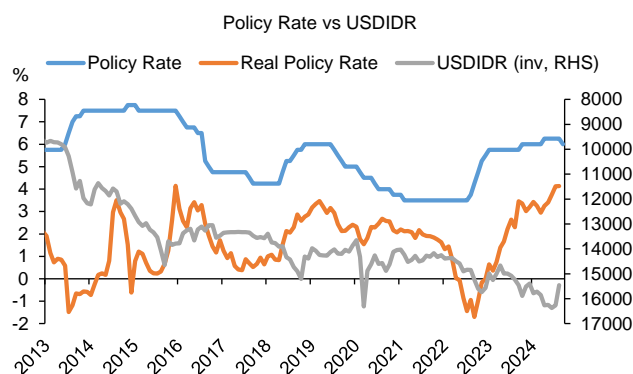
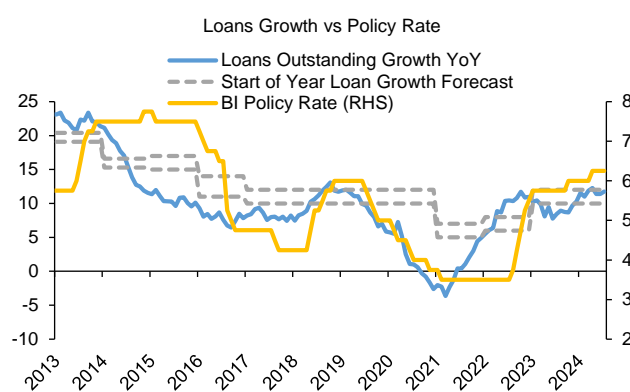


Post-Bank Indonesia Decision: Surprises and Opportunities



Source: Bloomberg; CEIC; Mizuho



Source: CEIC; Mizuho

- On 18 September, Bank Indonesia (BI) delivered a surprise 25bps cut, front-running the Fed.
- The decision was motivated by within-target inflation outlook, stable IDR and a pro-growth angle.
- Interestingly, BI characterised the policy stance as “balanced between [rupiah-]stability and growth” and cited the need for growth to be encouraged higher even as Indonesia’s economic growth remains good. This could suggest that BI viewed policy rate at 5.25% as a tad restrictive on growth, but necessary to support the IDR. After all, BI announced a surprise hike in April this year on IDR-stability concerns, and IDR having appreciated about ~1.3% since the August meeting (and is now ~5.7% stronger since the April meeting) ought to provide BI some comfort.
- With current real rates at 4.1% (vs ~2.0% for 2016-2019), this suggests that **barring excessive IDR volatility, there is further room easing.**
- Notwithstanding this, we think that BI may exercise some restraint insofar that elevated global uncertainty imparts caution, and expectations of G4 central banks’ policy outlook is likely to continue to adjust. Cautiousness is also perhaps reflected in BI’s less committal remarks on future cuts relative to the August meeting where they said the room for cuts was open. But to be clear, the easing bias is still retained in that **they are monitoring opportunities to lower the policy rate.**
- Premised on no “risk-off” sentiments on US recession fears as Fed policy trajectory adjusts, we now think that **BI will cut rates in a staggered fashion – i.e. riding rupiah strength and cutting when IDR is stable**, but could pause in the middle of the cycle when IDR faces some volatility. We expect BI to cut policy rate till around 4.50-5.00% for the following reasons:
 - Upside inflation risks: Inflation in 2025 is expected to be biased towards the upper half of BI’s 2.5±1% target range amid infrastructure push and higher government spending with a wider deficit, this would mean a real policy rate of about 1.50-2.50%.
 - Supported growth: Infrastructure push is expected to continue amid the ongoing capital transition, and on higher government spending. In addition, BI sees potential for 2025 growth to be higher than 5.2%.
 - Supported IDR: Amid the Fed’s easing cycle, IDR is likely to be supported (insofar as there is no “risk-off” on growth risks) as the scope for cuts by the Fed is arguably larger than BI. BI’s surprise cut despite policymakers’ apparently relative circumspection in their US rate cut outlook¹ relative to markets’ pricing underscore this. Nonetheless, some caution will be duly appreciated here as a potential wider fiscal deficit on the new administration’s spending plans and wider current account deficit on

¹ BI sees three FFR cuts this year, and four in 2025.

stumbling commodity prices could pressure the IDR.

- Historical reference: In 2016-2017, BI had kept policy rates around 4.25%-4.75% motivated by moderate inflation outlook (average inflation of about 3.5%), slow credit growth, and relative stable USD/IDR. In addition, during Covid-years, policy rates went to a low of 3.50%. At present, considering healthy loan growth, potential for stronger IDR on Fed's easing cycle and better supported GDP growth, we expect nominal rates to be higher than Covid lows and could be higher than 2016-2017 lows as well given rather supportive growth outlook.
- All in, we expect nominal rates to settle around 4.50-5.00% by end 2025.

	2024		2025			
	Q3	Q4	Q1	Q2	Q3	Q4
BI-Rate	6.00%	5.50%	5.00%	4.75%	4.75%	4.75%
USD/IDR	14850-16420 (15000)	14930-16190 (15550)	14840-15890 (15180)	14790-15580 (14980)	14130-15340 (14600)	14280-15490 (14750)

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