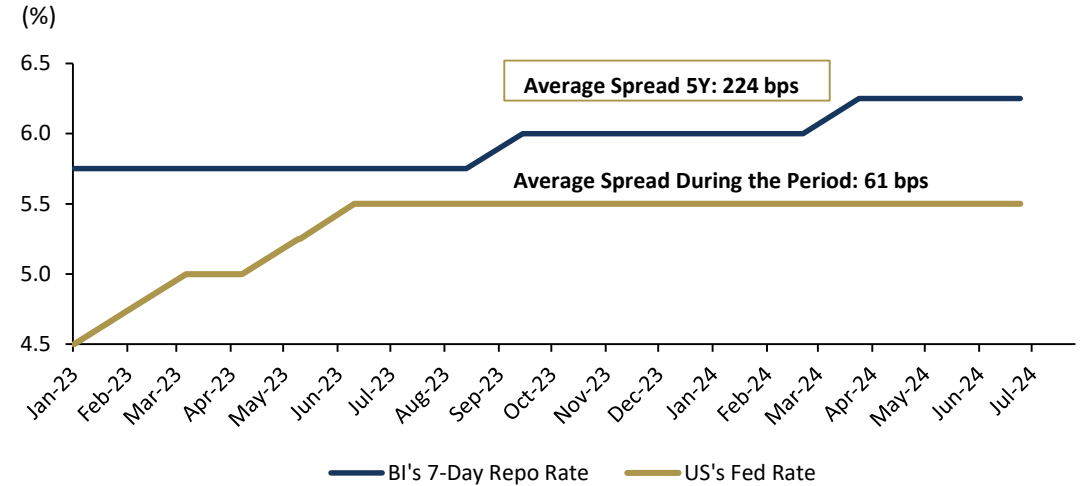


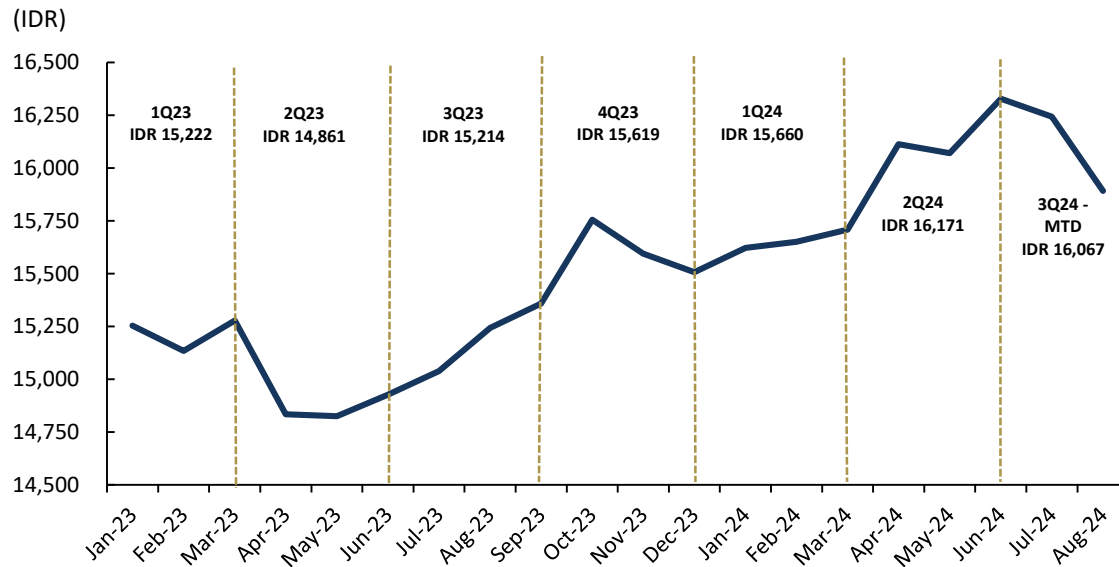
BI's 7-Day Repo Rate: 21 August 2024

- Inline with our and consensus' expectations, Bank Indonesia (BI) maintained its benchmark interest rate, or BI Rate, at 6.25% at the central bank's 21 August Policy meeting.
- Given the USD 145 billion in forex reserves and the 51st consecutive trade balance surplus, BI has extra room for an early 25 bps cut this month. However, we observe that the reserves are still predominantly coming from borrowed reserves rather than non-borrowed reserves, which could be a source of fragility in the coming months; thus, maintaining the status quo stance is understandable and prudent at the same time.
- Looking ahead, we anticipate a potential rate cut of 25 bps as early as September, in line with the Fed's high likelihood of cutting rates next month. This would allow BI to conveniently maintain parity with the FFR.
- Going forward, with inflation largely under control and a relatively weak USD, BI has the luxury of waiting to see clearer signs of global economic trends before making adjustments. By delaying a rate cut, we believe that BI would benefit from increased flexibility in its monetary policy stance when required allowing it to respond more effectively to any unforeseen economic shocks that may arise in the near term. This is particularly true on the back of Indonesia's twin deficits (budget and current account) which we believe would widen as we head into 2025.

BI Rate and US Fed Rate



Quarterly USD/IDR Rate 1Q23 – 3Q24 MTD



FX Reserves (M-o-M)

