

Bank Indonesia Rate Decision

Holds key rates steady, cuts reserve requirement ratio to boost liquidity

- Bank Indonesia (BI) yesterday held its 7-day repo rate unchanged after four consecutive rate cuts but slashed reserve requirement ratio (RRR) by 50 basis points (bps) (consensus: no change; KIBB: 50% probability of 25 bps cut)

- Both the Deposit Facility rate and Lending Facility rate maintained at 4.25% and 5.75% respectively.
- RRR for conventional banks and Islamic banks were cut to 5.50% and 4.00% respectively effective from Jan 2, 2020.

- BI statement: Ensuring adequate liquidity and accommodative measures to preserve economic stability and boost domestic economic growth**

- Monetary operations strategy remains oriented towards maintaining sufficient liquidity and facilitates the effective transmission of an accommodative policy mix.
- The macro-prudential policy remains accommodative to stimulate bank lending and enhance economic financing while also to strengthen payment system policy and financial market deepening.
- BI to support and enhance coordination with the Government and other relevant authorities to maintain economic stability, boost domestic demand, increase exports and tourism, alongside foreign capital inflows, including Foreign Direct Investment (FDI).

- Balance of Payments (BoP) improved in 3Q19, supporting Rupiah and reinforce Indonesia's external resilience**

- Current account deficit shrank to USD7.7b or 2.7% of GDP in 3Q19 (2Q19: -USD8.2b or 2.9% of GDP) while registering a higher surplus in the financial account (USD7.6b; 2Q19: USD6.5b).
- Rupiah gained 2.1% year-to-date as of 20th November, driven by sustained foreign capital inflows as well as stable market mechanism.
- BI expects the Rupiah to remain stable backed by fundamentals and stable forex market mechanism.

- BI has ample room to resume rate cut to bolster growth going into 2020**

- While there is no major breakthrough yet between the US and China to reach 'phase one' trade deal, we expect BI to resume the easing cycle in its last board of governor meeting for this year.
- Weak global demand and a relatively subdued inflationary trend would provide BI the policy flexibility to further ease its monetary policy.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.15% (-0.05%)	China	Lending Rate	Nov-19
1.25% (-0.25%)	Thailand	Repo Rate	Nov-19
5.00% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Oct-19
1.25% (-0.25%)	South Korea	Base Rate	Oct-19
5.15% (-0.25%)	India	Repo Rate	Oct-19
0.75% (-0.25%)	Australia	Cash Rate	Oct-19
4.00% (-0.25%)	Philippines	Overnight Reverse Repurchase	Sep-19
1.75-2.00% (-0.25%)	USA	Funds Rate Target	Sep-19
1.00% (-0.50%)	New Zealand	Official Cash Rate	Aug-19
3.00% (-0.25%)	Malaysia	Overnight Policy Rate	May-19
1.375% (-0.125%)	Taiwan	Discount Rate	Jul-16
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Feb-16

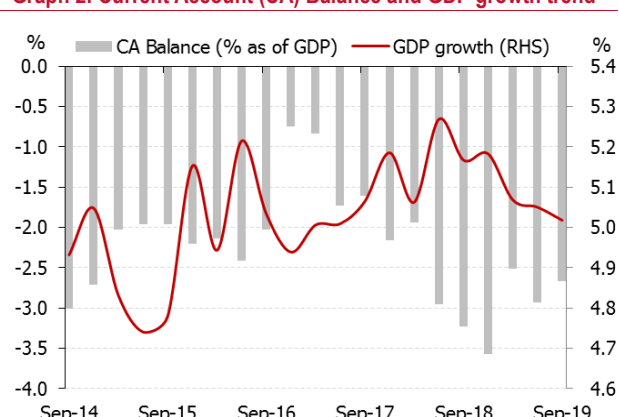
Source: Bloomberg, CEIC, Kenanga Research

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Bloomberg, CEIC, Kenanga Research

Graph 2: Current Account (CA) Balance and GDP growth trend



Source: Bloomberg, CEIC, Kenanga Research

22 November 2019

Table 2: Board of Governor (BOG) Meeting Schedule for 2019/ KIBB Outlook

No.	Date		KIBB Research Outlook	BOG Decision
1st	16-17 January (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
2nd	20-21 February (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
3rd	20-21 March (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
4th	24-25 April (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
5th	15-16 May (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
6th	19-20 June (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
7th	17-18 July (Wed and Thu)	<input checked="" type="checkbox"/>	10% probability of rate cut	25 bps cut
8th	21-22 August (Wed and Thu)	<input checked="" type="checkbox"/>	No change	25 bps cut
9th	18-19 September (Wed and Thu)	<input checked="" type="checkbox"/>	50% probability of rate cut	25 bps cut
10th	23-24 October (Wed and Thu)	<input checked="" type="checkbox"/>	No change	25 bps cut
11th	20-21 November (Wed and Thu)	<input checked="" type="checkbox"/>	50% probability of rate cut	No change
12th	18-19 December (Wed and Thu)	<input type="checkbox"/>	50% probability of rate cut	

Source: Bank Indonesia, CEIC, Kenanga Research

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