

20 December 2019

Bank Indonesia Rate Decision

Holds key rates steady, signals easing cycle in 2020 to boost growth

- Bank Indonesia (BI) yesterday kept its 7-day repo rate unchanged for the second straight month (consensus: no change; KIBB: 50% probability of 25 bps cut)**
 - Both the Deposit Facility rate and Lending Facility rate remained at 4.25% and 5.75%, respectively.
- 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 to facilitate the transmission of an accommodative policy mix.
 - The macro-prudential policy remains accommodative to stimulate loan growth while strengthening the payment system policy and financial market deepening.
 - BI to strengthen its coordination efforts with the Government and other relevant authorities to maintain economic stability, boosting domestic demand, increase exports and tourism, as well as attracting foreign capital inflows, including Foreign Direct Investment (FDI).
- Improved domestic economic outlook, but signalled easing bias via its accommodative policy stance**
 - The Balance of Payments (BoP) is expected to improve in 4Q19, due to an expected gain in the capital and financial account surplus, as well as a manageable current account (CA) deficit. CA deficit is projected to narrow to 2.7% of GDP in 2019 (2018: -2.9 of GDP) and then at the range of 2.5-3.0% of GDP in 2020.
 - Rupiah gained 2.9% year-to-date as of 18th December, supported by sustained foreign capital inflows and partly due to a monetary policy shift towards easing in the advanced economies.
 - BI expects GDP growth to moderate to 5.1% in 2019 (2018: 5.2%) and rebound within the range of 5.1-5.5% in 2020, supported by loan growth which is projected to grow between 10-12% in 2020 (Oct 2019: 6.5%).
- BI has ample room to resume rate cutting measures to bolster growth in 2020**
 - The central bank may slash 25 basis points (bps) as soon as in 1Q20 in a bid to prop up the growth momentum going forward. Overall, we foresee BI to cut up to 50 bps in 2020.
 - Stable inflation due to lower commodity prices and expectation of weaker demand as well as a stronger Rupiah on the back of sustain capital inflows may support the case of more easing.
 - While the US and China have somewhat reached a phase-one trade deal, uncertainties remains over the global economic outlook in part due to Brexit developments, ongoing geopolitical risks and the prospect of a slowdown in key major markets, which invariably would provide BI the flexibility to further ease its monetary policy.

Table 1: Policy Rates in Selected Countries

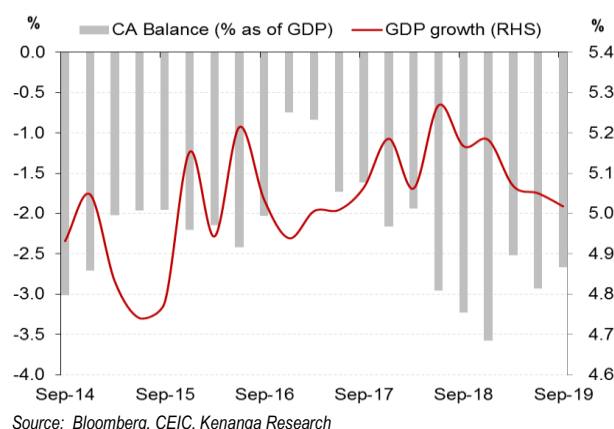
Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.15% (-0.05%)	China	Lending Rate	Nov-19
1.25% (-0.25%)	Thailand	Repo Rate	Nov-19
5.00% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Oct-19
1.25% (-0.25%)	South Korea	Base Rate	Oct-19
5.15% (-0.25%)	India	Repo Rate	Oct-19
0.75% (-0.25%)	Australia	Cash Rate	Oct-19
1.50-1.75% (-0.25%)	USA	Funds Rate Target	Oct-19
4.00% (-0.25%)	Philippines	Overnight Reverse Repurchase	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



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



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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 checked="" type="checkbox"/>	50% probability of rate cut	No change

Source: Bank Indonesia, CEIC, Kenanga Research

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