

# Bank Indonesia Rate Decision

Holds rate steady at 3.75%, expects rupiah to strengthen

- Bank Indonesia (BI) kept the benchmark 7-day reverse repo rate unchanged at 3.75% (KIBB: 50% probability rate cut; consensus: no change) at its final Board of Governor meeting this year

- The Deposit Facility rate and Lending Facility rate were also maintained at 3.00% and 4.50%, respectively.

- BI statement: The decision was consistent with the low inflation outlook, maintained external stability, and efforts to support economic recovery. It also implemented the following measures:-

- Accommodative macroprudential policy for priority sectors.
- Promoting lower lending rates with the Indonesian Financial Services Authority in terms of interest rate transparency.
- Accelerating digital transformation through payment system policy. BI also extending the 0% Merchant Discount Rate on QRIC transactions for micro-enterprises until 31st March 2021.

- BI expects the rupiah to appreciate as the currency is fundamentally undervalued

- Mainly due to narrow current account deficit, low and stable inflation, attractive domestic financial assets, lower risk premium, and potential high portfolio inflows due to the lush global liquidity.
- As of 17th December, the rupiah has gained marginally by 0.1% to 14,108 compared to the end of November. Year-to-date, it depreciated by 1.5% compared with the level at the end of 2019.

- Ample space for further monetary easing to boost economic recovery

- While BI seems upbeat on domestic growth in 2021, we remain cautious about the pace of economic recovery. This is mainly due to the benign inflation, which remains below its target range, as reflected in November's reading (1.59%). Besides, we believe that BI has more room to cut its policy rates to bolster economic recovery.
- The rupiah, which is a key variable for its interest rate decision, has performed well against the USD in recent weeks, supported by the COVID-19 vaccine optimism. Nonetheless, a sustained rally of the rupiah may support further monetary easing in early 2021.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
3.75% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Nov-20
2.00% (-0.25%)	Philippines	Overnight Reverse Repurchase	Nov-20
0.10% (-0.15%)	Australia	Cash Rate	Nov-20
1.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-20
0.50% (-0.25%)	South Korea	Base Rate	May-20
4.00% (-0.40%)	India	Repo Rate	May-20
0.50% (-0.25%)	Thailand	Repo Rate	May-20
3.85% (-0.20%)	China	Loan Prime Rate	Apr-20
0.25% (-0.75%)	New Zealand	Official Cash Rate	Mar-20
1.125% (-0.25%)	Taiwan	Discount Rate	Mar-20
0.0-0.25% (-1.00%)	USA	Funds Rate Target	Mar-20
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Jan-16

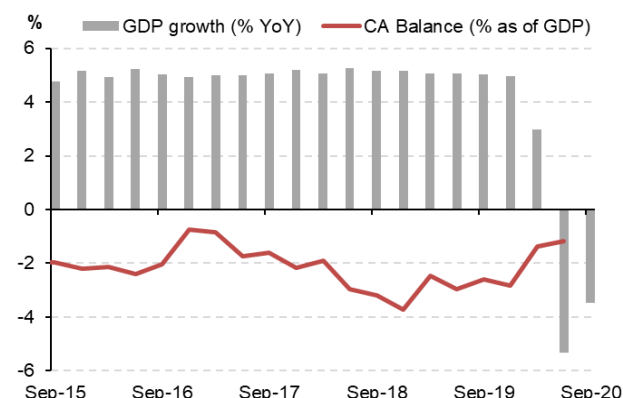
Source: Bloomberg, CEIC, Kenanga Research

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Bloomberg, CEIC, Kenanga Research

Graph 2: GDP Growth and CA balance trend



Source: CEIC, Kenanga Research

18 December 2020

**Table 2: Board of Governor (BOG) Meeting Schedule for 2020/ KIBB Outlook**

No.	Date		KIBB Research Outlook	BI Decision
1st	22-23 January (Wed and Thu)	☑	No change	No change
2nd	19-20 February (Wed and Thu)	☑	50% probability cut	25 bps cut
3rd	18-19 March (Wed and Thu)	☑	80% probability cut	25 bps cut
4th	13-14 April (Mon and Tue)	☑	No change	No change
5th	18-19 May (Mon and Tue)	☑	No change	No change
6th	17-18 June (Wed and Thu)	☑	50% probability cut	25 bps cut
7th	15-16 July (Wed and Thu)	☑	50% probability cut	25 bps cut
8th	18-19 August (Tue and Wed)	☑	50% probability cut	No change
9th	16-17 September (Wed and Thu)	☑	No change	No change
10th	12-13 October (Mon and Tue)	☑	No change	No change
11th	18-19 November (Wed and Thu)	☑	50% probability cut	25 bps cut
12th	16-17 December (Wed and Thu)	☑	50% probability cut	No change

Source: Bank Indonesia, CEIC, Kenanga Research

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