

23 July 2021

Bank Indonesia Rate Decision

Keeps policy rate steady at 3.50%, but slashed GDP growth

- Bank Indonesia (BI) kept the benchmark 7-day reverse repo rate unchanged at 3.50% for the fifth consecutive meeting at its 7th Board of Governor meeting this year on July 22. The decision was in line with house and market expectation

- The Deposit Facility rate and Lending Facility rate were also retained at 2.75% and 4.25%, respectively.

- BI statement: The decision is in line with the need to maintain currency and financial system stability amid low inflation outlook and the effort to support economic growth. BI also embark on the following policy measures:

- Supporting trade activities by extending the SPE exemptions, to December 31, 2022, amid increasing demand from trading partners and rising commodity prices.

- Upbeat with global economic recovery, but slashed domestic growth outlook

- GDP:** While it expects global economy to grow at a higher rate underpinned by the acceleration of vaccination program and continued fiscal and monetary support, domestic growth is expected to be weighed by the COVID-19 resurgence following the spread of the Delta variant. Hence, BI has revised GDP growth to 3.5% - 4.3% from the previous projection of 4.1% - 5.1%, reflecting the impact of movement restriction.
- Inflation:** BI retained its inflation forecast within the 2.0% - 4.0% target band for 2021 and 2022 amid adequate supply while also pledged to maintain price stability.
- Rupiah:** As of July 21, the rupiah marginally depreciated at an average of 1.14% against the USD compared to June 2021 (-0.2%), indicating that it was relatively more stable despite elevated global financial market uncertainty.

- No change in policy rate expected until 2022

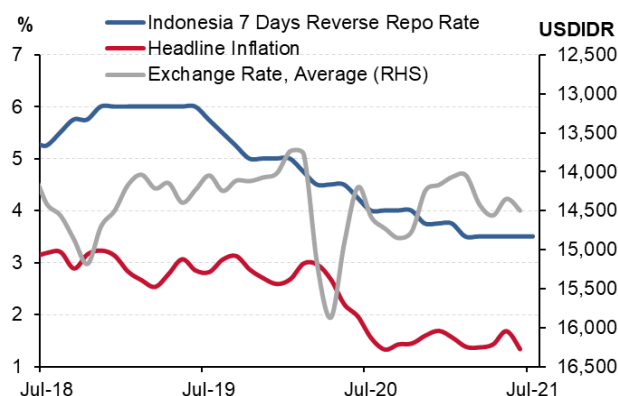
- While new COVID-19 cases have fallen from a record high of 54,517 on July 14, the death rate remain elevated, registering a record high of 1,383 on July 21. The government has extended the emergency state of public activity restriction or PPKM until July 25 with high possibility to be extended again in a bid to curb the virus transmission.
- We continue to believe that BI has ample room to resume monetary easing to support growth given the worsening COVID-19 situation, which will likely undermine growth recovery. Nonetheless, the chances of another rate cut is remote for now as we believe BI's policy is more leaning towards ensuring currency stability.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
3.50% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Feb-21
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

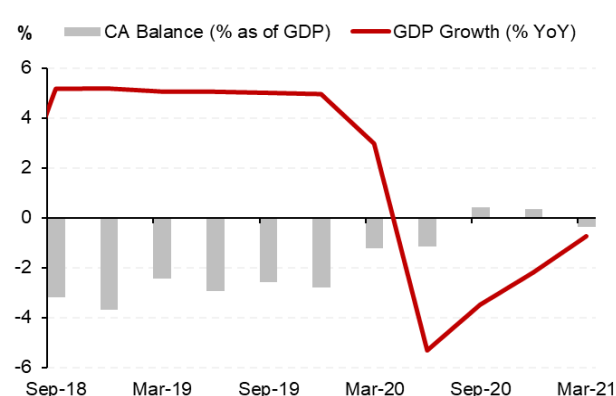
Source: Bloomberg, CEIC, Kenanga Research

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

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Table 2: Board of Governor (BOG) Meeting Schedule for 2021/ KIBB Outlook

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

Source: Bank Indonesia, Kenanga Research

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