

Bank Indonesia Rate Decision

Holds policy rate at 3.50% to support growth recovery

- Bank Indonesia (BI) kept the benchmark 7-day reverse repo rate unchanged at 3.50% for the seventh consecutive meeting at its 9th Board of Governor meeting this year on September 21. The decision was in line with house and market expectation

- The Deposit Facility and Lending Facility rates were also kept at 2.75% and 4.25%, respectively.
- BI statement:** The decision is in line with the need to maintain exchange rate and financial system stability amid a low inflation outlook and the effort to support economic growth.

- Sees gradual domestic growth recovery, but cautious on the global growth outlook

- GDP:** BI sees the impact of rising COVID-19 cases brought by the Delta wave and supply disruptions in several countries to slow the pace of global economic recovery. Meanwhile, BI expect domestic growth to recover gradually, driven by the relaxation of mobility

restrictions as reflected in the performance of various leading indicators such as retail sales, consumer expectations, manufacturing PMI and payment transactions. This will be supported by the progress of the vaccination program, robust export performance, economic reopening, and continued policy support.

- Inflation:** Inflation was relatively stable amid subdued domestic demand, maintained exchange rate stability and the consistency of BI's policies. It retained its inflation forecast within the 2.0%-4.0% target band.
- Rupiah:** As of September 21, the rupiah depreciated by 1.3% against the USD compared to the end of 2020 level. This is relatively lower compared to other regional peers such as Malaysian Ringgit (-4.2%), Philippine Peso (-4.3%), and Thailand Baht (-11.6%).

- Monetary policy outlook to remain status quo till year-end

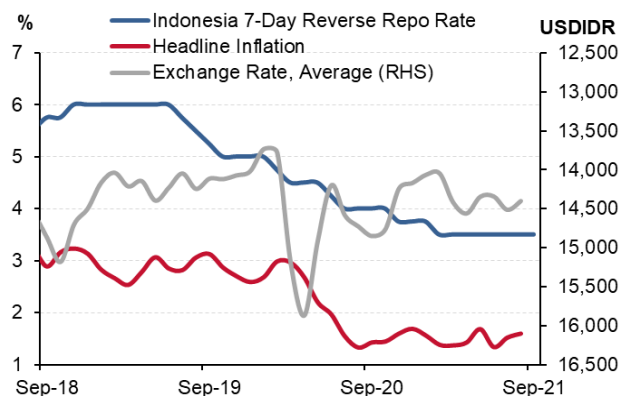
- As of September 20, Indonesia reported 1,932 new daily infections, the lowest since August 2020, with total cases registered nearly 4.2m cases. While the domestic COVID-19 situation has improved, downside risks remain, largely due to potential COVID-19 resurgence resulting from premature relaxation of movement restrictions.
- Nonetheless, we see the scope of further monetary easing to be limited given the heightened global financial instability as the US Fed is expected to start its tapering by year-end while global central bank in advanced economies turned hawkish. This would weigh on the rupiah's stability, a key decision point of BI's interest rate policy.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
0.75% (+0.25%)	South Korea	Base Rate	Aug-21
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
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

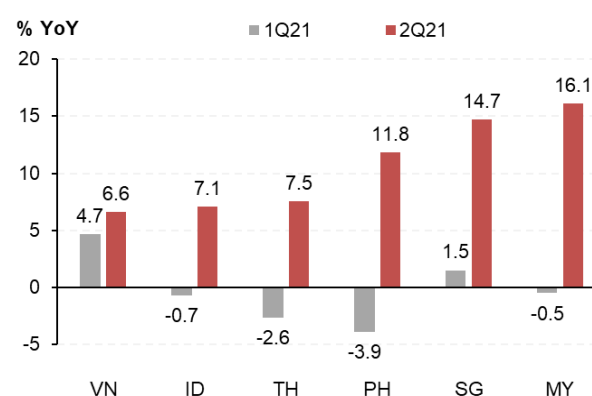
Source: Bloomberg, CEIC, Kenanga Research

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Bloomberg, CEIC, Kenanga Research

Graph 2: ASEAN-5 & VN GDP Growth



Source: CEIC, Kenanga Research

22 September 2021

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 checked="" type="checkbox"/>	No change	No change
9th	20-21 September (Mon and Tue)	<input checked="" type="checkbox"/>	No change	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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