

Bank Indonesia Rate Decision

Holds policy rate steady at 3.50% to support economic recovery

- Bank Indonesia (BI) kept the benchmark 7-day reverse repo rate unchanged at 3.50% for the ninth consecutive time, out of its eleven Board of Governor meetings this year. The decision, on November 18, 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.

- Continued domestic growth recovery expected amid easing mobility restrictions

- GDP:** BI expect domestic growth to continue to improve in the 4Q21, boosted by exports' performance, higher fiscal spending, and increasing consumption and investment amid the relaxation of mobility restrictions. Growth forecasts range for 2021 remains at 3.5%-4.3%. BI retained its global growth forecast at 5.7% on the back of continued global economic recovery as reflected by several leading indicators and easing energy crisis in China.

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- Inflation:** It sees inflation rate to remain relatively stable amid subdued domestic demand, ample supply of goods, and a stable exchange rate. BI maintain its inflation forecast at a target range of 2.0%-4.0% in 2021 and 2022.

- Rupiah:** BI sees uncertainty in global financial markets brought by the policy shift in global monetary policy amid rising inflation to exert pressure on the rupiah. As of November 18, the rupiah depreciated by 1.1% against the USD compared to the end of 2020 level. This is still relatively lower compared to other regional peers such as Malaysian Ringgit (-3.5%), Philippine Peso (-4.5%), and Thailand Baht (-9.3%).

- Monetary policy outlook to remain status quo in the final month of 2021 and most of 2022

- We retained our policy rate outlook that BI would likely keep rates steady until year-end and possibly embark on policy tightening towards the final part of 2022. This is mainly due to the subdued inflation outlook in the near term and the need to continue supporting growth recovery.

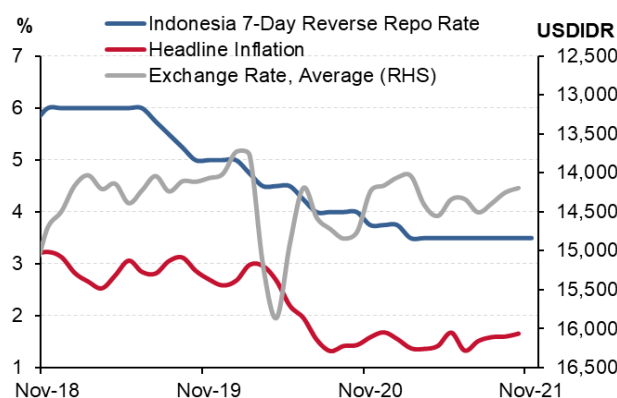
- We also reiterate our view that the scope of further monetary easing will be limited given the heightened global financial instability as the US Fed starts to taper its USD120.0b/month bond buying and inflation fears fuelling speculation of sooner-than-expected rate hike. Besides, policy shifts among central banks in advanced economies would also add pressure to rupiah's stability, a key influence of BI's decision on interest rate policy.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
0.50% (+0.25%)	New Zealand	Official Cash Rate	Oct-21
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
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

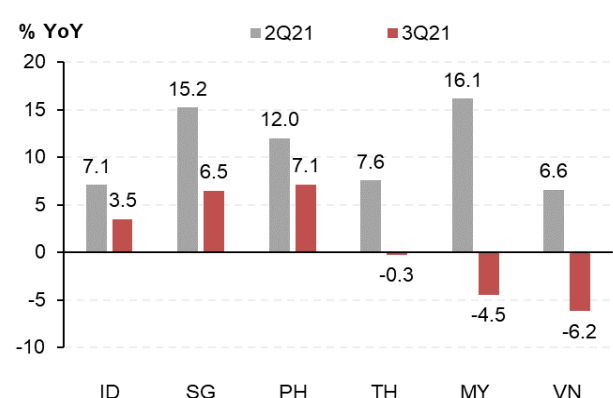
Source: Bloomberg, CEIC, Kenanga Research

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Bloomberg, CEIC, Kenanga Research

Graph 2: ASEAN-5 + VN GDP Growth



Source: CEIC, Kenanga Research

19 November 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)	☑	50% probability cut	No change
2nd	17-18 February (Wed and Thu)	☑	25 bps cut	25 bps cut
3rd	17-18 March (Wed and Thu)	☑	No change	No change
4th	19-20 April (Mon and Tue)	☑	No change	No change
5th	24-25 May (Mon and Tue)	☑	No change	No change
6th	16-17 June (Wed and Thu)	☑	No change	No change
7th	21-22 July (Wed and Thu)	☑	No change	No change
8th	18-19 August (Wed and Thu)	☑	No change	No change
9th	20-21 September (Mon and Tue)	☑	No change	No change
10th	18-19 October (Mon and Tue)	☑	No change	No change
11th	17-18 November (Wed and Thu)	☑	No change	No change
12th	15-16 December (Wed and Thu)	☐	No change	

Source: Bank Indonesia, Kenanga Research

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