

# Bank Indonesia Rate Decision

Left policy rates unchanged but set to raise RRR from March

- Bank Indonesia (BI) kept the benchmark 7-day reverse repo rate at 3.50% for the eleventh consecutive time at its first Board of Governor meetings for this year. The decision, on January 20, 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 the stability of an exchange rate, financial system, and inflation and effort to support economic growth amid elevated external pressures.
- Rupiah Statutory Reserves (RRR):** In an unexpected move, BI decided to increase the RRR (currently at 3.5%) for the conventional bank to 5.0% in March and for the Islamic bank to 4.0%, and further increase to 6.5% in September (5.0% Islamic Bank).

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
3.70% (-0.10%)	China	Loan Prime Rate	Jan-22
1.25% (+0.25%)	South Korea	Base Rate	Jan-22
0.75% (+0.25%)	New Zealand	Official Cash Rate	Nov-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
1.125% (-0.25%)	Taiwan	Discount Rate	Mar-20
0.00-0.25% (-1.00%)	USA	Funds Rate Target	Mar-20
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Jan-16

Source: Bloomberg, CEIC, Kenanga Research

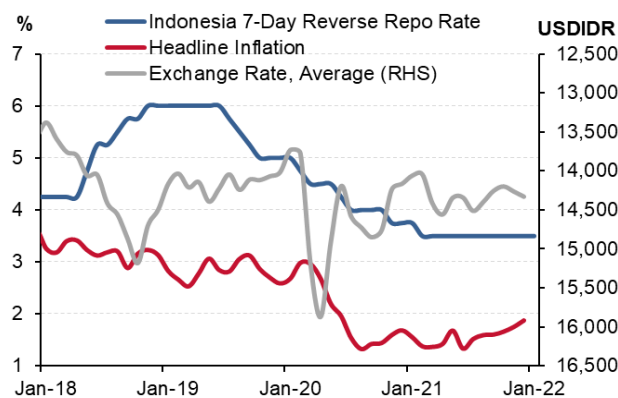
- Growth momentum accelerated going into 2022

- GDP:** BI sees acceleration in the recovery process in line with the positive developments in domestic economic indicators in December 2021. Growth forecast range for 2021 was retained at 3.2%-4.0% and to further increase to 4.7%-5.5% in 2022 underpinned by higher private consumption and investment backed by government's fiscal spending and exports as well as supported by increased mobility.
- Inflation:** Inflation remains low, with 2021 official CPI at 1.87% YoY (2020: 1.68%), well below BI's target range. BI retained its inflation forecast for 2022 at a target range of 2.0%-4.0%, relatively stable amid rising domestic demand, coupled with an adequate supply of goods, a steady exchange rate and controlled inflation expectations.
- Rupiah:** BI sees global financial market uncertainty to persist, in line with the acceleration of the US Fed tightening cycle as well as the spread of the Omicron variant. This subsequently resulted in limited capital inflows and weakened the rupiah. As of January 19, the rupiah depreciated by 0.7% against the USD compared to the end of 2021 level, mainly due to the US Fed hawkish tilt. Similarly, other depreciated regional currencies include the Malaysian Ringgit (-0.6%) and Philippine Peso (-1.0%). Meanwhile, Thailand Baht (+0.6%) buck the trend.

- BI may begin its rate hike cycle sooner than expected

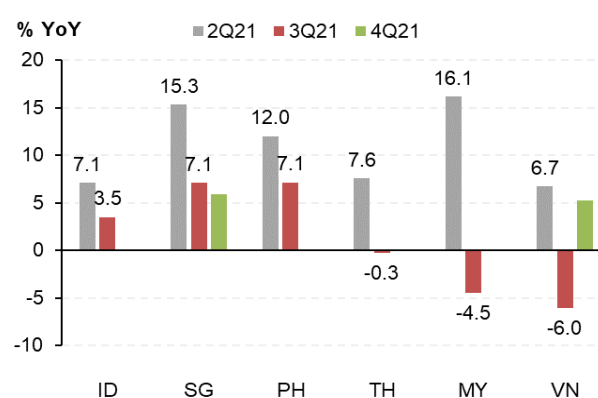
- The decision to increase RRR signals that rate hikes may come sooner than expected. We are now penciling two rate hikes by the end of the year or specifically in the 4Q22 and is expected to be gradual. The policy rate outlook is also in line with the acceleration in the US Fed tightening cycle. Nonetheless, given the lower inflation outlook and the need to continue supporting growth recovery, we believe that BI would ensure that policy rates to stay low for now.

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Bloomberg, CEIC, Kenanga Research

Graph 2: ASEAN-5 + VN GDP Growth



Source: CEIC, Kenanga Research

21 January 2022

**Table 2: Board of Governor (BOG) Meeting Schedule for 2022/ KIBB Outlook**

No.	Date		KIBB Research Outlook	BI Decision
1st	19-20 January (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
2nd	9-10 February (Wed and Thu)	<input type="checkbox"/>	No change	
3rd	16-17 March (Wed and Thu)	<input type="checkbox"/>	No change	
4th	18-19 April (Mon and Tue)	<input type="checkbox"/>	No change	
5th	23-24 May (Mon and Tue)	<input type="checkbox"/>	No change	
6th	22-23 Jun (Wed and Thu)	<input type="checkbox"/>	No change	
7th	20-21 July (Wed and Thu)	<input type="checkbox"/>	No change	
8th	22-23 August (Mon and Tue)	<input type="checkbox"/>	No change	
9th	21-22 September (Wed and Thu)	<input type="checkbox"/>	No change	
10th	19-20 October (Wed and Thu)	<input type="checkbox"/>	25 bps hike	
11th	16-17 November (Wed and Thu)	<input type="checkbox"/>	No change	
12th	21-22 December (Wed and Thu)	<input type="checkbox"/>	25 bps hike	

Source: Bank Indonesia, Kenanga Research

**For further information, please contact:**

**Wan Suhaimie Wan Mohd Saidie**  
Head of Economic Research  
[wansuhaimi@kenanga.com.my](mailto:wansuhaimi@kenanga.com.my)

**Muhammad Saifuddin Sapuan**  
Economist  
[saifuddin.sapuan@kenanga.com.my](mailto:saifuddin.sapuan@kenanga.com.my)

**Afiq Asyraf Syazwan Abd. Rahim**  
Economist  
[afiqasyraf@kenanga.com.my](mailto:afiqasyraf@kenanga.com.my)

**Zalman Basree**  
Economist  
[zalman@kenanga.com.my](mailto:zalman@kenanga.com.my)

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

