

Bank Indonesia Rate Decision

Raised key rate by 50bps to 5.25%, signals continued fight with inflation

- Bank Indonesia (BI) raised the benchmark 7-day reverse repo rate by 50 basis points (bps) to 5.25% at its eleventh Board of Governor meeting this year, its fourth-rate hike in a row, matching house and market expectations

- The Deposit Facility and Lending Facility rates were also raised to 4.50% and 6.00%, respectively.
- BI statement:** A front-loaded, pre-emptive, and forward-looking measure to control inflation expectation and to ensure core inflation returns to a target range of 2.0% - 4.0% early into 1H23 and to strengthen the rupiah stability amid global financial market uncertainty and strong domestic demand.

- Domestic growth is forecast to remain on upside bias, while inflation expectations remain high

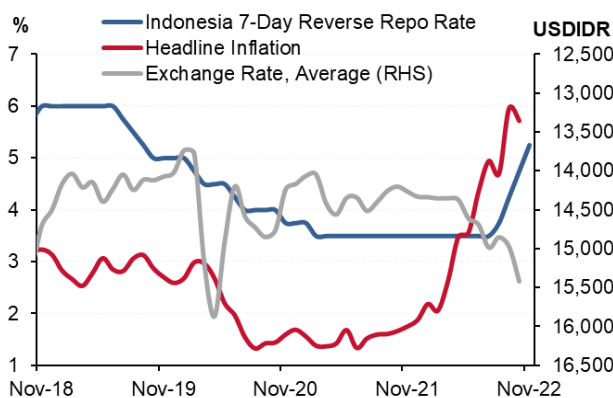
- GDP:** BI maintained its upside bias on domestic growth (4.5%-5.3%; 2021: 3.7%) outlook, given the better-than-expected 3Q22 GDP growth (5.72% versus consensus 5.6%) and continued improvement in domestic demand as well as export performance. It also expects 2023 growth to remain high despite being surrounded by the risk of a global economic slowdown.
- Inflation:** inflation expectations remained high at 5.9% in December, although it is expected to moderate but still above the BI target range of 2.0% - 4.0%. This is mainly due to the impact of fuel price adjustments and rising inflationary pressures. BI signals that it will strengthen the monetary policy response to reduce inflation expectations and ensure core inflation returns to its target band as soon as in 1H23. Of reference, core inflation expanded to 3.31% YoY in October (Sep: 3.21%), the highest since September 2019.
- Rupiah:** depreciated against the USD in November amid the Fed's hawkishness. As of November 16, the rupiah depreciated by 9.4% against the USD compared to the end of 2021, largely supported by BI stabilisation measures. Nonetheless, other regional currencies also depreciated against the greenback, led by the Philippine Peso (-12.5%), followed by the Malaysian Ringgit (-9.0%) and Thai Baht (-7.1%).
- BI is expected to hike another 25 bps in December as a pre-emptive move amid global economic slowdown**
 - As the prospect of global economic slowdown is becoming increasingly imminent, we believe BI would become less hawkish in the near term and likely to raise the policy rate by 25 bps in its last Board of Governor meetings for this year, ending the policy rate at 5.50% for 2022, which is the highest level since July 2019.
 - This will support the rupiah given the expectation of further appreciation in USD amid the US Fed's hawkishness. With its commitment to combat inflation, we believe it will achieve its target of bringing core inflation back to the 2.0% - 4.0% range as early as in 1H23.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
5.25% (+0.50%)	Indonesia	7-Day Reverse Repo Rate	Nov-22
5.00% (+0.75%)	Philippines	Overnight Reverse Repurchase	Nov-22
3.75% -4.00% (+0.75%)	USA	Funds Rate Target	Nov-22
2.75% (+0.25%)	Malaysia	Overnight Policy Rate	Nov-22
2.85% (+0.25%)	Australia	Cash Rate	Nov-22
5.90% (+0.50%)	India	Repo Rate	Oct-22
3.50% (+0.50%)	New Zealand	Official Cash Rate	Oct-22
3.00% (+0.50%)	South Korea	Base Rate	Oct-22
1.00% (+0.25%)	Thailand	Repo Rate	Sep-22
1.625% (+0.125%)	Taiwan	Discount Rate	Sep-22
3.65% (-0.05%)	China	Loan Prime Rate (1-YR)	Aug-22
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Jan-16

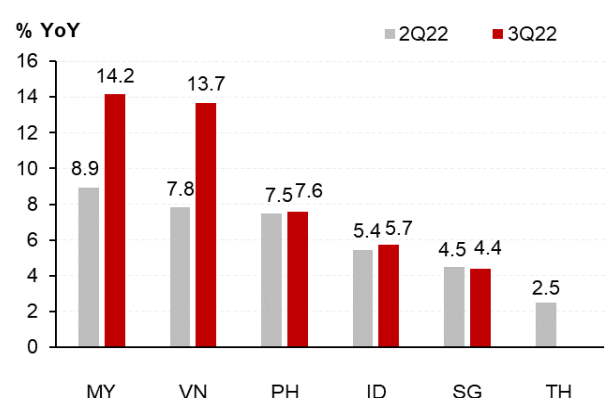
Source: Bloomberg, CEIC, Kenanga Research

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Bloomberg, CEIC, Kenanga Research

Graph 2: ASEAN-5 + VN GDP Growth



Source: CEIC, Kenanga Research

21 November 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)	☑	No change	No change
2nd	9-10 February (Wed and Thu)	☑	No change	No change
3rd	16-17 March (Wed and Thu)	☑	No change	No change
4th	18-19 April (Mon and Tue)	☑	No change	No change
5th	23-24 May (Mon and Tue)	☑	No change	No change
6th	22-23 Jun (Wed and Thu)	☑	No change	No change
7th	20-21 July (Wed and Thu)	☑	25 bps hike	No change
8th	22-23 August (Mon and Tue)	☑	No change	25 bps hike
9th	21-22 September (Wed and Thu)	☑	No change	50 bps hike
10th	19-20 October (Wed and Thu)	☑	50 bps hike	50 bps hike
11th	16-17 November (Wed and Thu)	☑	50 bps hike	50 bps hike
12th	21-22 December (Wed and Thu)	☐	25 bps hike	

Source: Bank Indonesia, Kenanga Research

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