

Bank Indonesia Rate Decision

Another 25bps hike to 5.75%; signals end of tightening cycle

- Bank Indonesia (BI) raised the benchmark 7-day reverse repo rate by 25 basis points (bps) to 5.75% at its first Board of Governor meeting for this year, its sixth-rate hike in a row, matching house and market expectations

- The Deposit Facility and Lending Facility rates were also raised to 5.00% and 6.50%, respectively.

- BI statement:** a more measured manner and a follow-up to the front-loaded, pre-emptive, and forward-looking measures to ensure a decline in inflation expectation and future inflation with the headline and core inflation to return to a target range of 2.0% - 4.0%.

- Slashed global economic growth forecast, and expect domestic growth for 2023 to moderate while inflationary pressure to ease

- GDP:** BI slashed its projection for global economic growth in 2023 to 2.3% from the previous forecast of 2.6% due to an increased risk of recession in the US and Europe. Nonetheless, it expects China's economic reopening to withstand the slowdown in global economic growth. On the domestic front, BI maintained its upside bias on domestic growth for 2022 (4.5%-5.3%; 2021: 3.7%) due to continued improvement in domestic demand as well as strong export performance. Going forward, BI is pencilling a moderate growth for 2023, potentially to settle at the midpoint of 4.5%-5.3% in line with the slowdown in the global economic outlook.
- Inflation:** December's inflation was recorded at 5.51% (Nov: 5.42%), which is relatively high. However, the rate was lower than the consensus forecast, with core inflation (3.36%; Nov: 3.30%) registered below BI's forecast of 4.61%. BI believes core and headline inflation will return to the target range of 3.0%-4.0% in 2023.
- Rupiah:** So far, the rupiah has appreciated against the USD mainly due to the less hawkish US Fed and the optimism of China's economic reopening. As of January 18, the rupiah strengthened by 3.1% against the USD compared to the end of 2022. Similarly, other regional currencies also appreciated against the greenback, led by the Thai Baht (4.9%), followed by the Philippine Peso (2.0%) and Malaysian Ringgit (2.0%).

- BI may hike another 25 bps in February to further support the rupiah and ensure inflation returns to its target
 - BI may reach the end of the hiking cycle as soon as February and is likely to shift towards a neutral stance. This also considers the prospect of a slower rate hike by the US Fed and the prospect of a global economic slowdown due to tighter financial conditions brought by the increase in the policy rate. Meanwhile, inflationary pressure is expected to ease in 2H23 due to the absence of the festive season and normalisation in economic activities.
 - USDIDR year-end forecast (14,912; 2022: 15,573): the rupiah may appreciate further in the near term on the back of an interest rate hike by BI and a weakening USD index as the US Fed signal a slowdown in the interest rate hike. Nevertheless, the prospect of a global economic slowdown may pressure the rupiah from further upside bias.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
5.50% (+0.50%)	Philippines	Overnight Reverse Repurchase	Dec-22
4.25% - 4.50% (+0.50%)	USA	Funds Rate Target	Dec-22
3.50% (+0.50%)	UK	Base Rate	Dec-22
3.10% (+0.25%)	Australia	Cash Rate	Dec-22
2.50% (+0.50%)	Euro Area	Fixed Rate	Dec-22
1.75% (+0.125%)	Taiwan	Discount Rate	Dec-22
1.25% (+0.25%)	Thailand	Repo Rate	Nov-22
4.25% (+0.75%)	New Zealand	Official Cash Rate	Nov-22
2.75% (+0.25%)	Malaysia	Overnight Policy Rate	Nov-22
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

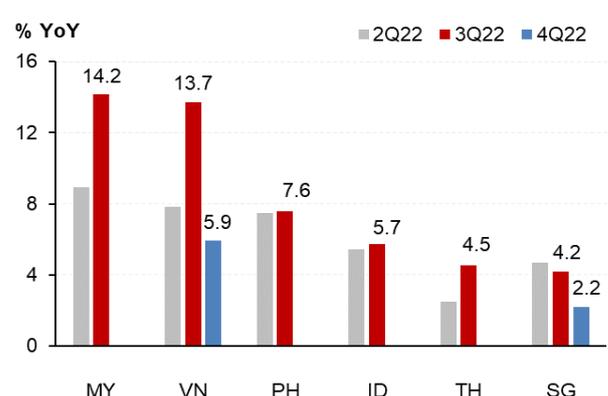
Source: Bloomberg, CEIC, Kenanga Research

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Bloomberg, CEIC, Kenanga Research

Graph 2: ASEAN-5 + VN GDP Growth



Source: CEIC, Kenanga Research

20 January 2023

Table 2: Board of Governor (BOG) Meeting Schedule for 2023/ KIBB Outlook

No.	Date		KIBB Research Outlook	BI Decision
1st	18-19 January (Wed and Thu)	<input checked="" type="checkbox"/>	25 bps hike	25 bps hike
2nd	15-16 February (Wed and Thu)	<input type="checkbox"/>	25 bps hike	
3rd	15-16 March (Wed and Thu)	<input type="checkbox"/>	No change	
4th	18-19 April (Tue and Wed)	<input type="checkbox"/>	No change	
5th	24-25 May (Wed and Thu)	<input type="checkbox"/>	No change	
6th	21-22 Jun (Wed and Thu)	<input type="checkbox"/>	No change	
7th	24-25 July (Mon and Tue)	<input type="checkbox"/>	No change	
8th	23-24 August (Wed and Thu)	<input type="checkbox"/>	No change	
9th	20-21 September (Wed and Thu)	<input type="checkbox"/>	No change	
10th	18-19 October (Wed and Thu)	<input type="checkbox"/>	No change	
11th	22-23 November (Wed and Thu)	<input type="checkbox"/>	No change	
12th	20-21 December (Wed and Thu)	<input type="checkbox"/>	No change	

Source: Bank Indonesia, Kenanga Research

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