

Bank Indonesia Rate Decision

Second rate cut within two months to bolster slowing economy

OVERVIEW

- Bank Indonesia (BI) yesterday in a surprise move decided to cut its 7-day repo rate by 25 basis points (bps) to 5.50%**, at its eight Board of Governor (BoG) meeting this year. This is second rate cut within two months, while consensus and house expected the central bank to keep its key rate on hold. The central bank also cut the Deposit Facility rate by 25 bps to 4.75%, as well as the Lending Facility rate by 25 bps to 6.25%. According to BI, the latest decision was considered as a pre-emptive measure to bolster the slowing economy after it recorded the slowest growth within two years in 2Q19 at just 5.05% YoY (1Q19: 5.07%), albeit sustaining above-average annual growth of 5%. Meanwhile, its inflation outlook remained stable below the midpoint of target range (2.5-4.5%) which further supported the decision.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
5.50% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Aug-19
4.25% (-0.25%)	Philippines	Overnight Reverse Repurchase	Aug-19
5.40% (-0.35%)	India	Repo Rate	Aug-19
1.00% (-0.50%)	New Zealand	Official Cash Rate	Aug-19
1.50% (-0.25%)	Thailand	Repo Rate	Aug-19
2.00-2.25% (-0.25%)	USA	Funds Rate Target	Jul-19
1.50% (-0.25%)	South Korea	Base Rate	Jul-19
1.00% (-0.25%)	Australia	Cash Rate	Jul-19
3.00% (-0.25%)	Malaysia	Overnight Policy Rate	May-19
1.375% (-0.125%)	Taiwan	Discount Rate	Jul-16
0.00% (-0.05%)	Eurozone	Main Refinancing Rate	Mar-16
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Feb-16
4.35% (-0.25%)	China	Lending Rate	Oct-15

Source: Bloomberg, CEIC, Kenanga Research

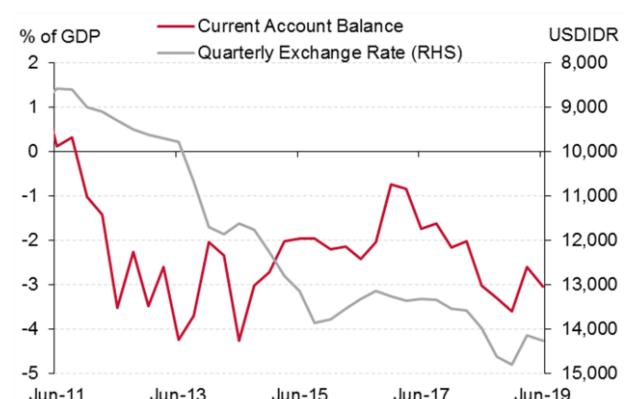
- Ensuring adequate liquidity and accommodative measures to preserve economic stability and boost domestic economic growth.** BI reiterated that their monetary operations strategy remains oriented towards providing sufficient liquidity and increasing money market efficiency, while the macroprudential policy remains accommodative to encourage bank lending and expand economic financing including green finance. Besides, payment system policy and financial market deepening will also be strengthened to support economic growth. BI pledged to enhance its support and coordination with the Government and other relevant authorities to strengthen external resilience and domestic demand, including boosting exports and tourism, attracting foreign capital inflows and efforts to encourage FDI. The Rupiah strengthened in July as much as 0.8% backed by an influx of foreign capital inflows boosted by positive perception of foreign investors on the national economic outlook as well as the attractiveness of domestic financial assets. Going forward, BI expects a stable rupiah supported by the prospect of foreign capital inflows to Indonesia on the back of sound domestic economy, attractive returns, and the impact of dovish monetary policy in advanced economies.
- BI has ample room for more monetary easing.** As inflation outlook remains stable, and the Rupiah continues to move in line with the currency's fundamental, we foresee BI to continue its dovish policy leanings with another rate cut this year. This is in line with the need to boost economic growth momentum as President Jokowi promised to achieve in his second term as well as to safeguard against the impact of global growth slowdown and ongoing trade tensions. While the US Fed is anticipated to at least decide on another rate cut before year end, and should the external sector continue to weigh on the economy, we expect BI has enough scope for another rate cut this year as soon as in September.

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Bloomberg, CEIC, Kenanga Research

Graph 2: Quarterly Current Account Balance and USDIDR



Source: Bloomberg, CEIC, Kenanga Research

Table 2: Board of Governor (BOG) Meeting Schedule for 2019/ KIBB Outlook

No.	Date		KIBB Research Outlook	BOG Decision
1st	16-17 January (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
2nd	20-21 February (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
3rd	20-21 March (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
4th	24-25 April (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
5th	15-16 May (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
6th	19-20 June (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
7th	17-18 July (Wed and Thu)	<input checked="" type="checkbox"/>	10% probability of rate cut	25 basis cut
8th	21-22 August (Wed and Thu)	<input checked="" type="checkbox"/>	No change	25 basis cut
9th	18-19 September (Wed and Thu)	<input type="checkbox"/>	50% probability of rate cut	
10th	23-24 October (Wed and Thu)	<input type="checkbox"/>	No change	
11th	20-21 November (Wed and Thu)	<input type="checkbox"/>	50% probability of rate cut	
12th	18-19 December (Wed and Thu)	<input type="checkbox"/>	No change	

Source: Bank Indonesia, CEIC, Kenanga Research

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