

Bank Indonesia Rate Decision

Holds key rates steady, leaves door open for further easing

- Bank Indonesia (BI) yesterday kept its 7-day repo rate unchanged for the third straight month (consensus: no change; KIBB: no change)

- Both the Deposit Facility rate and Lending Facility rate remained at 4.25% and 5.75%, respectively.

- BI statement: Ensuring adequate liquidity and accommodative measures to preserve economic stability and boost domestic economic growth

- Monetary operations strategy remains oriented towards maintaining sufficient liquidity and supporting the transmission of an accommodative policy mix.

- The macro-prudential policy remains accommodative while strengthening the payment system policy and financial market deepening.

- BI will continue to strengthen its coordination efforts with the Government and other relevant authorities to maintain economic stability, boosting domestic demand, increase exports and tourism, as well as attracting foreign capital inflows, including Foreign Direct Investment (FDI).

- Upbeat on the domestic and global economic outlook, but maintain an accommodative policy stance

- BI foresee improved external resilience primarily contributed by an influx of foreign capital inflows (4Q19: USD6.4b; 3Q19: USD4.9b), manageable current account deficit on the back of a sharp decrease in the trade deficit as well as increased reserve assets.

- Rupiah gained 1.74% as of 22 January, and BI expects rupiah stability to remain in line with the currency's fundamental value and maintained market mechanisms.

- BI has ample room to resume the easing cycle to bolster growth in 2020

- Lower commodity prices as well as partly due to structural improvement and policy synergy between the government agencies have reinforced price stability. Meanwhile, the Rupiah is expected to gain from easing trade tension and sustain capital inflows which may support the case of more easing.

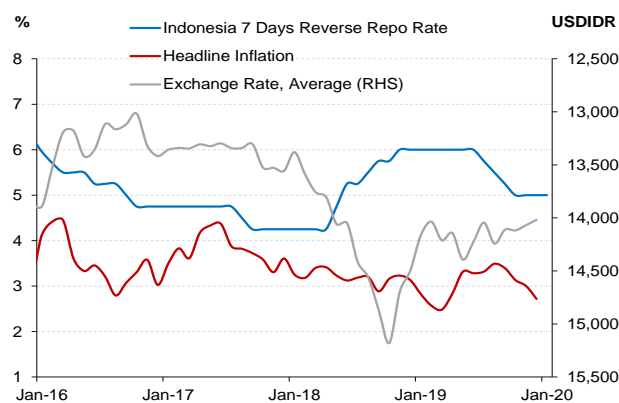
- We maintain our house forecast that the central bank may slash 25 basis points (bps) in 1Q20 amid slowing loan growth and a cautiously weak GDP growth outlook. Overall, we foresee BI to cut interest rates by up to 50bps in 2020.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jan-20
4.15% (-0.05%)	China	Loan Prime Rate	Nov-19
1.25% (-0.25%)	Thailand	Repo Rate	Nov-19
1.50-1.75% (-0.25%)	USA	Funds Rate Target	Nov-19
5.00% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Oct-19
1.25% (-0.25%)	South Korea	Base Rate	Oct-19
5.15% (-0.25%)	India	Repo Rate	Oct-19
0.75% (-0.25%)	Australia	Cash Rate	Oct-19
4.00% (-0.25%)	Philippines	Overnight Reverse Repurchase	Sep-19
1.00% (-0.50%)	New Zealand	Official Cash Rate	Aug-19
1.375% (-0.125%)	Taiwan	Discount Rate	Jul-16
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Feb-16

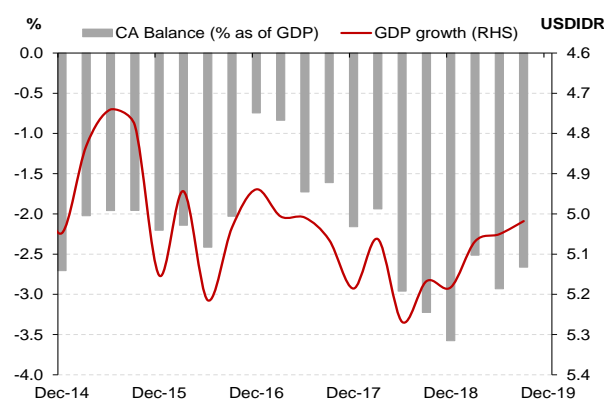
Source: Bloomberg, CEIC, Kenanga Research

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Bloomberg, CEIC, Kenanga Research

Graph 2: Current Account (CA) Balance and GDP growth trend



Source: Bloomberg, CEIC, Kenanga Research

24 January 2020

Table 2: Board of Governor (BOG) Meeting Schedule for 2020/ KIBB Outlook

No.	Date		KIBB Research Outlook	BOG Decision
1st	22-23 January (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
2nd	19-20 February (Wed and Thu)	<input type="checkbox"/>	50% probability cut	
3rd	18-19 March (Wed and Thu)	<input type="checkbox"/>	No change	
4th	13-14 April (Mon and Tue)	<input type="checkbox"/>	No change	
5th	18-19 May (Mon and Tue)	<input type="checkbox"/>	50% probability cut	
6th	17-18 June (Wed and Thu)	<input type="checkbox"/>	No change	
7th	15-16 July (Wed and Thu)	<input type="checkbox"/>	No change	
8th	18-19 August (Tue and Wed)	<input type="checkbox"/>	No change	
9th	16-17 September (Wed and Thu)	<input type="checkbox"/>	No change	
10th	12-13 October (Mon and Tue)	<input type="checkbox"/>	No change	
11th	18-19 November (Wed and Thu)	<input type="checkbox"/>	No change	
12th	16-17 December (Wed and Thu)	<input type="checkbox"/>	No change	

Source: Bank Indonesia, CEIC, Kenanga Research

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