

Bank Indonesia Rate Decision

Cuts key rates and growth projection amid COVID-19 fallout

- Bank Indonesia (BI) yesterday cut its 7-day repo rate by 25 basis points (bps) to 4.75% in line with market and house expectation**

- The Deposit Facility rate and Lending Facility rate were also reduced to 4.00% and 5.50%, respectively.

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

- Monetary operation remains oriented towards maintaining sufficient liquidity and supporting the transmission of an accommodative policy mix.
- The macro-prudential policy remains accommodative to stimulate economic financing in which BI will adjust the calculation of the Macroprudential Intermediation Ratio (MIR).
- Strengthening the payment system policy to support growth momentum through digital economic and financial transformation.

- Adding the effort to mitigate the impact of COVID-19, apart from its continued effort to strengthen coordination with the Government and other relevant authorities to preserve economic stability, boosting domestic demand, and accelerate structural reforms.

- Weak growth outlook in the near term hampered by COVID-19 outbreak**

- BI less optimistic over the global economic recovery process which has been dragged by the coronavirus outbreak forcing BI to revise down its global growth outlook to 3.0% from 3.1% and further projecting lower domestic economic growth in 2020 to 5.0-5.4%, slightly lower from an initial target range of 5.1-5.5%. The central bank had slashed its benchmark interest rate by 100bps and cut the reserve requirement for banks last year in a bid to shore up GDP growth, but overall growth moderated to 5.02% (2018: 5.17%).
- Rupiah appreciated in January by an average of 2.1% MoM (Dec 19: 0.4%) but soften in early February on negative sentiment amid fears of the COVIDs-19 outbreak. Nonetheless, BI predicts Rupiah's stability in line with its fundamental value and maintained market mechanisms.
- BI revised down its loan growth to 9-11% this year from an initial target range of 10-12%, albeit expanding compared to 6.1% last year, which could be supported through adjustment in MIR rule.

- Interest rate outlook maintained; another rate cut in 2Q20 to bolster growth going forward**

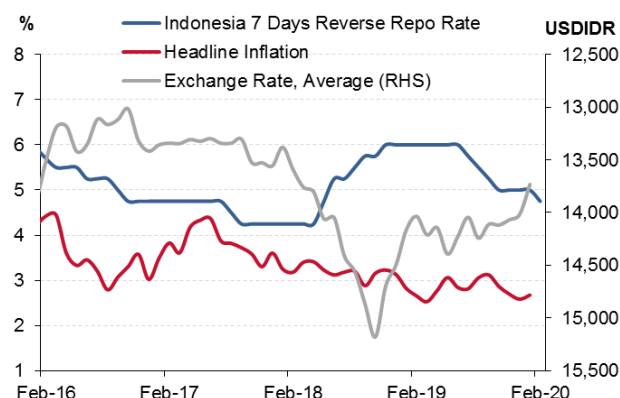
- In spite of not even a single confirmed case reported in Indonesia so far, the house view that February's rate cut is timely, amid increasing concerns of the COVID-19 fallout. The 25bps reduction would partially mitigate the potential damage on tourism, trade, investment channel, and overall growth for 2020.
- Rupiah's stability, low and stable inflation, as well as continued weakness in global growth weighed by the virus outbreak, would provide support for BI to embark on another 25bps rate cut potentially in the 2Q20.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.75% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Feb-20
4.05% (-0.10%)	China	Loan Prime Rate	Feb-20
1.00% (-0.25%)	Thailand	Repo Rate	Feb-20
3.75% (-0.25%)	Philippines	Overnight Reverse Repurchase	Feb-20
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jan-20
1.50-1.75% (-0.25%)	USA	Funds Rate Target	Nov-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
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

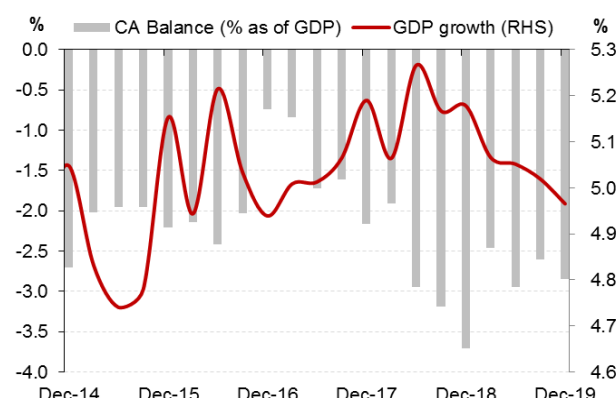
Source: Bloomberg, CEIC, Kenanga Research

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

21 February 2020

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

No.	Date		KIBB Research Outlook	BI Decision
1st	22-23 January (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
2nd	19-20 February (Wed and Thu)	<input checked="" type="checkbox"/>	50% probability cut	25 bps cut
3rd	18-19 March (Wed and Thu)	<input type="checkbox"/>	No change	
4th	13-14 April (Mon and Tue)	<input type="checkbox"/>	50% probability cut	
5th	18-19 May (Mon and Tue)	<input type="checkbox"/>	No change	
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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