Indonesia Outlook

BI holds whilst easing looks elusive

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Highlights

- **Bank Indonesia (BI) held the benchmark rate at 6.00% as expected.**
- **BI mentioned they "will remain vigilant of global financial market dynamics and external stability with due consideration to the space available for accommodative monetary policy in line with low inflation and the need to stimulate domestic economic growth" and also stated that their policy rate stance is neutral and cautious.**
- **They revised their current-account deficit target to 2.5% - 3.0% of GDP for 2019, from previous expectations at 2.5% of GDP but still expect growth in 2019 to be stable falling below the mid-range of 5.0 – 5.4%.**
- **With this in mind, we see that BI may choose to still hold in the near term especially amid heightened trade tensions and continued signs pointing to a weak global trade environment that could affect the IDR.**
- **We see any cut this year of possibly 50bps would likely come in 4Q 2019 although this will also depend on how external conditions evolve.**

Bank Indonesia (BI) held the benchmark rate at 6.00% as expected. At the same time, the central bank said that will be maintaining the Countercyclical Capital Buffer (CCB) ratio of 0%, the Macroprudential Liquidity Buffer (PLM) ratio of 4% with a repo flexibility of 4%, and the Range of Ratio Macroprudential Intermediation (RIM) of 84-94% in order to ensure the availability of liquidity in the banking sector.

However, interestingly, the central bank dropped the first hint of actually considering a monetary easing. BI mentioned they "will remain vigilant of global financial market dynamics and external stability with due consideration to the space available for accommodative monetary policy in line with low inflation and the need to stimulate domestic economic growth." At the same time, BI also stated that their policy stance is neutral and cautious. Currently, global financial market conditions do not look favourable for Indonesia as heightened trade tensions are resulting in a risk – off environment for emerging-market (EM) assets and hence, hurting the IDR. The country's current account deficit may also continue to be quite wide amid a subdued global economic environment resulting in a weaker level of exports. BI themselves have after all revised their current-account deficit target to 2.5% - 3.0% of GDP for 2019, from previous expectations at 2.5% of GDP.

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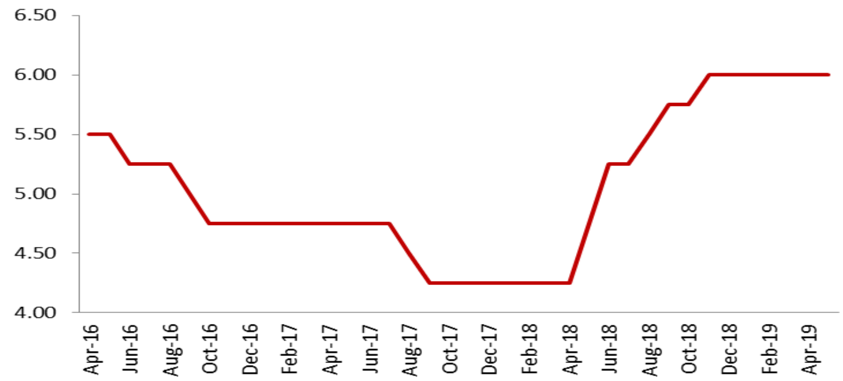
However, on the growth front, whilst a slowdown may have occurred in 1Q 2019 to 5.07% yoy, BI is still expecting growth to remain stable, specifically pointing out that they see 2019 growth falling below the mid-range of 5.0 – 5.4%. With this

stability in growth expected by them, we see that the central bank may believe that they are not exactly in a hurry to cut in the near term although we also think they are vigilant of the 2018 tightening eventually having its effect on the economy. The latter is particular reflected in the macro prudential measures they have adopted in the last few meetings.

Overall, we therefore see any cut by BI in the near term to be unlikely given the current situation. We see any cut this year of possibly 50bps would likely come in 4Q 2019 although this will also depend on how external conditions evolve.

Chart 1: Benchmark rate, %



Source: CEIC, Bloomberg and OCBC

Chart 2: USD - IDR

Source: CEIC, Bloomberg and OCBC