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All is Well

Wellian Wiranto
+65 6530 6818
WellianWiranto@ocbc.com

Bank Indonesia strikes a confident tone and holds rate

- We thought the recent Rupiah strength presents BI with an opportunity to cut rate further to boost growth. As it turns out, BI takes a more rose-tinted view of the global and domestic economies and opted for a pause for now.
- From the conclusion of Phase 1 deal to PMI upticks on the global side, and resilient household consumption and exports pickup on the domestic front, its statement has a chirpy all-is-well tone to it that supports today's decision.
- Still, BI has left itself an escape clause, noting that it sees the room to cut further if necessary. Overall, we maintain our view that rate cuts of up to 50bps are in the pipeline, especially if loans growth does not go anywhere near the 10-12% yoy spurt that BI is hoping to see.

No need to rush

We noted a path for BI to cut its policy rate by 25bps earlier this week, in which we highlighted that Rupiah's strength will provide a window of opportunity for it to juice up growth.

Alas, it appears that BI has taken the view that the recent global and domestic economic momentums have strengthened enough for it to continue keeping its foot off the gas pedal for now.

From the Bahasa statement, BI notes chirpily of how global economic recovery in 2020 is starting to become more evident, supporting a continued decline in market uncertainties. It mentions how the US-China trade deal has anchored an improvement in a host of numbers into end-2019, including PMIs, export orders and industrial productions. Indeed, if you read Bank Negara Malaysia's statement from yesterday and BI's statement today side-by-side, you might be forgiven for wondering if they are talking of a different world, or at least a different period, altogether. See our BNM note yesterday.

Even as BI's statement somewhat cursorily acknowledges the need to pay attention to geopolitical risks, the statement paints a picture of confidence that the global economic recovery would persist enough for foreign inflows into EMs to continue – and help to boost Indonesia's economy in turn.

On the domestic front, BI has projected the same upbeat aura in the statement, as well, noting how the all-important private consumption remains supported by improving consumer confidence and seasonal demand. Meanwhile, exports are said to be bolstered by pickup in commodities demand, including coal, iron and steel, as well as motor vehicles. Investment is said to have brighter prospects due in part to the implementation of omnibus laws.

While the last point presuming the passage and successful implementation of investment-friendly omnibus law might strike some as counting the chicken before it hatches – with repeated delays in tabling of the bill to the parliament, for instance – the other supportive factors behind BI's sanguine outlook look to be on comparatively firmer grounds. Indeed, we see growth picking up to 5.2% this year compared to what is likely to be 5.1% in 2019. In comparison, BI has maintained its projection of 5.1-5.5%, with a midpoint of 5.3% for 2020.

Overall, as much as we too see a stronger growth prospect for both global and Indonesian economies this year, the path ahead is still riddled with too much uncertainties for us to assume with any high confidence that BI no longer needs to cut rate to help things along. Indeed, we still think there is a significant likelihood that BI may have to trim rate by up to 50bps by year-end. This is especially so if loans growth remains stubbornly low. From an outturn of 6% loans growth in 2019, BI is expecting to see a relatively sharp and optimistic pickup to 10-12% growth this year.

In terms of the immediate months ahead, BI is likely to continue being in a holding pattern, partly because it would take a big shock in either the global or the domestic economy for it to walk back from the confident tone it has projected today. Should the host of supportive factors that it has highlighted fail to pan out by April or so – including the touted investment omnibus law implementation – however, BI would probably have to reach for the rate-cut trigger once more.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com