

INDOPREMIER

MacroInsight

19 February 2020

Macroeconomics Indicator

	2019	2020F
GDP growth (%YoY)	5.02	5.01
Inflation (%YoY)	2.72	3.14
BI rate (% Year-end)	5.00	4.50
IDR/USD (Year-end)	14,155	13,500
CA balance (% of GDP)	2.82	2.51
Fiscal balance (% of GDP)	2.21	2.43

BI rate preview: imminent cut ahead

- With Inflation to remain benign, strengthening IDR along with weaker economic growth shall prompt a more accommodative policy.
- We are on the view that BI may cut its rate either this month or next month (concurrent with the Fed's meeting).
- We expect BI has room to cut its reference rate by at least 50bp to 4.5% in 2020.

All indicators are pointing to a rate cut

Inflation figure shall remain benign amidst lower fuel price. As of Jan, inflation was at 2.7% yoy and will continue to be low during the year at around 3.1% yoy. Concurrently, IDR continues to strengthen and already the strongest currency among EM countries. Despite those aforementioned factors, household purchasing power seems to be weakening (lower velocity of money at 2.65times in 2Q19 vs 2.60times in 4Q19 and lower core inflation of 3.3% in 2Q19 vs. 3.0 in 4Q19). This, and weaker a growth shall point to weaker overall Indonesia's economic growth (refer to our previous report on Corona: [estimating the impact of corona virus](#)) and may require a more accommodative monetary policy, in our view.

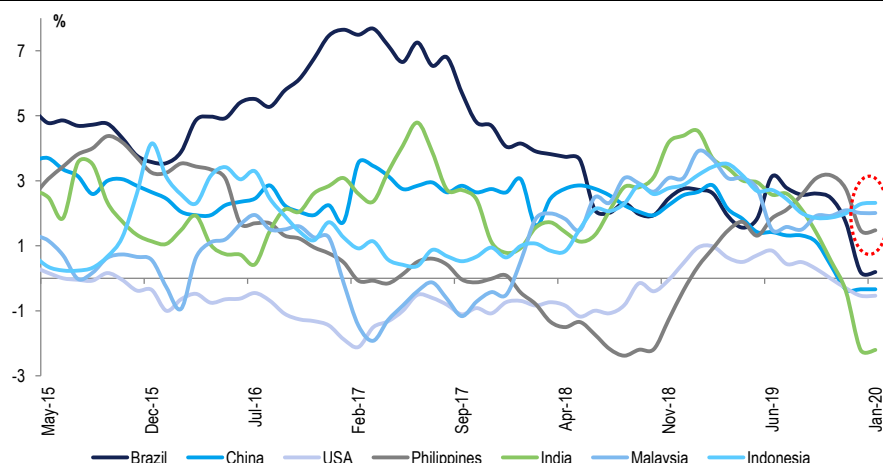
Low risk of capital outflow on the back of high real rate

Shall BI cut its rate tomorrow ahead of Fed's meeting in March; there is a concern of capital outflow as other countries still kept their rate unchanged, except for Malaysia. However, judging by the real interest rate, the possibilities of a capital reversal is considerably low. Indonesia real interest rate is one of the highest among peers (real rate at 2.7% vs. avg. peers 0.6%) and thus, justifying the lower reference rate.

We expect BI rate to be lowered by at least 50bp in 2020

Going forward judging by the projected low inflation figure, stable IDR and projected weaker economic growth, we see the BI rate may be lowered by at least 50bp in 2020. This shall provide some help for economic activity, while at the same time preserving stability.

Fig. 1: Indonesia real rate very high



Sources: CEIC, BIS, IndoPremier

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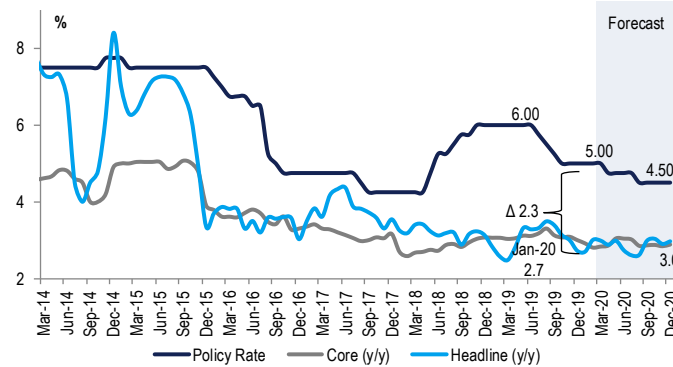
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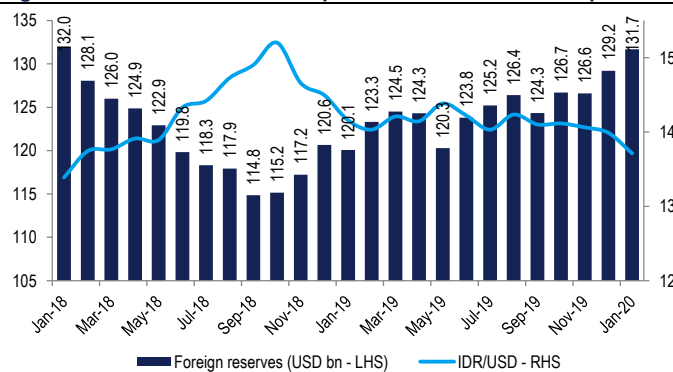
Refer to Important disclosures in the last page of this report

Fig. 2: Inflation benign and manageable, room for rate cut high



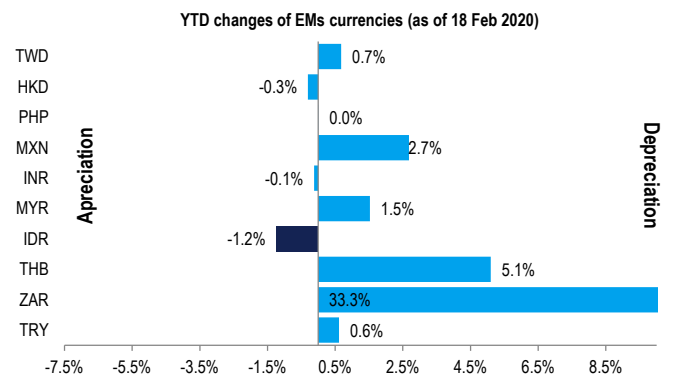
Sources: BPS, BI, IndoPremier

Fig. 4: Reserves more than adequate to withstand external pressure



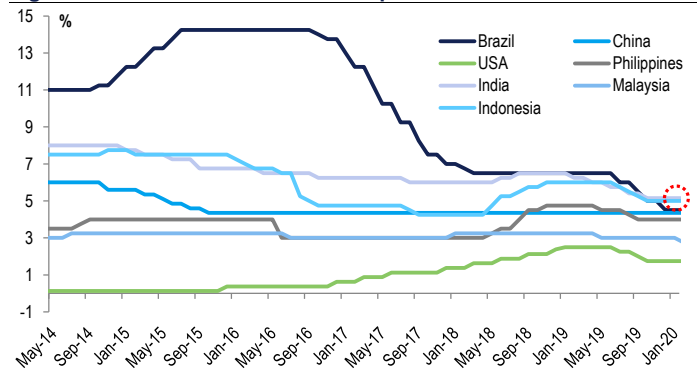
Sources: BI, Bloomberg, IndoPremier

Fig. 3: IDR is one of the strongest currency



Sources: Bloomberg, IndoPremier

Fig. 5: Nominal interest rate still competitive



Sources: CEIC, IndoPremier

ANALYSTS CERTIFICATION

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