

Indonesia: Steady policy rate decision likely

Indicators allow for another policy rate cut, which is likely at the November meeting



Source: istock

Bank Indonesia (BI) is likely to keep rates steady on Thursday, but Governor Agus Martowardojo indicated that the central bank is open to further easing, depending on the data. We believe the data will continue to be consistent with another rate cut.

Inflation and the inflation outlook remain low together with only moderate economic activity and would likely sway the central bank to cut policy rates one last time during this cycle, as early as the November meeting.

Liquidity growth is relatively tight at 10% in August for an economy growth at 5% and inflation at almost 4%. Loan growth has stayed quite low at just 8% in July and 8.4% in August, while the

latest vehicle and motorcycle sales have shown a YoY drop. BI's 4Q bank survey indicates that lending growth is seen to average at 10.6% this year, down from the previous quarter's view of 12.4%. The September Nikkei PMI manufacturing for Indonesia moderated to 50.4 from August's 50.7. Inflation has eased to 3.7% in September from 3.8% in August, 3.9% in July and 4.4% in June. Inflation is expected to trend to 3.6% and average 3.5% in 2018. IDR has weakened but seemed to have stabilised for now. Bloomberg consensus sees IDR retracing back to IDR13400 by year-end and weaken marginally to IDR13440 by the end of next year.

President Jokowi has also weighed on the issue of lower rates. He believes the low inflation environment allows for further reductions. However, President Jokowi acknowledges BI's independence and defers to BI's views and decisions.

Bank Indonesia (BI) is expected to keep the policy rate steady at Thursday's meeting. This is in line with the unanimous Bloomberg consensus forecast. BI signalled that the last rate cut was "sufficient" for now and that further easing would be data dependent. We believe that another policy rate cut is likely at the November meeting. But a warning is in order. BI has surprised with policy rate cuts at the last two policy rate meetings.