

## Indonesia: No Surprise At Rate Meeting

The BI cut its benchmark overnight rate by 50bps to 8.25% on Wed. This brings cumulative cuts to 125bps from its peak of 9.50% in Nov last year. In the FX market, IDR was steady at 11,700/USD following the rate move as it was within expectation.

With inflation easing and the economic outlook increasingly depressing, we expect the BI to continue to ease its monetary policy next month. On Monday, data showed inflation moderating to 9.17%/y in Jan from 11.06% in Dec. On a m/m basis, prices fell 0.07% in Jan as a result of fuel price cut in the month. On the other hand, exports fell by a larger-than-expected 20.6%/y in Dec. We expect coming months of data to remain weak as global demand and employment prospects stay in the doldrums. Overall, inflation is expected to stabilise at around 5% in 2H09 while full-year GDP growth is likely to expand by just 3.6% this year compared with an estimated 5.9% in 2008. This will be the slowest since 2001 when the economy grew by a similar pace. On average, the Indonesian economy grew by 5.5% per year in the last five years. We reckon such circumstances would warrant a further 75bps cut in the overnight rate to 7.50% by 2Q09. Following the rate announcement, the BI suggested that there is room for a further rate cut in March if inflation continues to ease.

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