

Bank Indonesia delays normalisation after cutting global growth projections

Bank Indonesia kept rates steady to bolster growth as inflation remains manageable



Bank Indonesia Governor Perry Warjiyo has hinted that he will consider tightening policy if inflation becomes a problem

3.5% policy rate

As expected

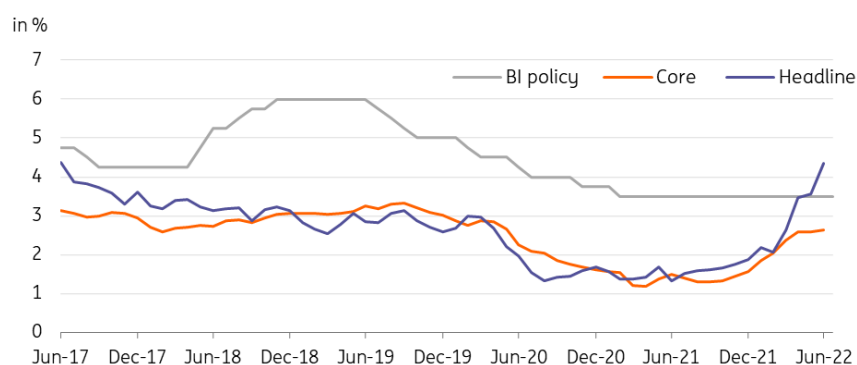
BI stays accommodative amid projected global slowdown

Bank Indonesia (BI) kept policy rates untouched once again to help support the economy's recovery amid BI's less optimistic outlook for global growth. Unlike most other countries, Indonesia's currency is facing far less pressure to weaken, bolstered by supersized trade surpluses. Benefiting from the commodity price surge, Indonesia's trade surplus recently hit record highs with the central bank expecting the current account to post a surplus of 0.3% in the best-case scenario.

The relatively more stable Indonesian rupiah has, in turn, helped to mitigate imported inflation with Indonesia's core inflation staying well within target. BI's decision to keep rates unchanged should help boost domestic growth prospects in the near term while the central bank works to siphon off excess liquidity from pandemic-related stimulus via a series of scheduled hikes to the reserve requirement ratio.

The central bank retained its growth projections of 4.5-5.3% but admitted that GDP may settle below the midpoint of this range. Possibly more telling was the substantial downgrade for global growth, which is now expected to settle at 2.5%, down from BI's previous projection of 3.5%.

Core inflation key to eventual BI rate hike



Source: Badan Pusat Statistik and Bank Indonesia

What peer pressure?

BI has been on hold since early 2021 and has faced far less pressure, both on the exchange rate and inflation, than its peers. We had expected a rate hike from BI today after other regional central banks tightened last week but given Indonesia's projection for its current account, the Bank could be on hold for just a little longer.

BI Governor Perry Warjiyo previously hinted that the projected rate hike from the central bank would only be triggered by core inflation and we will be monitoring how quickly price pressures build up in the coming months. Headline inflation is already above target (4.4%) and we could see core inflation follow this trajectory with BI finally joining the rate hike club in late 3Q.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com