

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

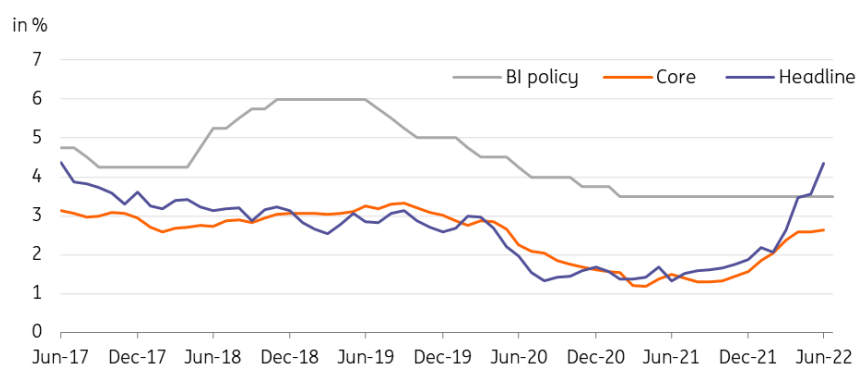
BI stays accommodative amid projected global slowdown

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial

instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.