

Bank Indonesia hikes again but this rate hike cycle could be coming to a close

Bank Indonesia has lifted its policy rate by 25bp as expected, but its tone has shifted to dovish



Bank Indonesia
governor Perry Warjiyo

5.75% BI policy rate

As expected

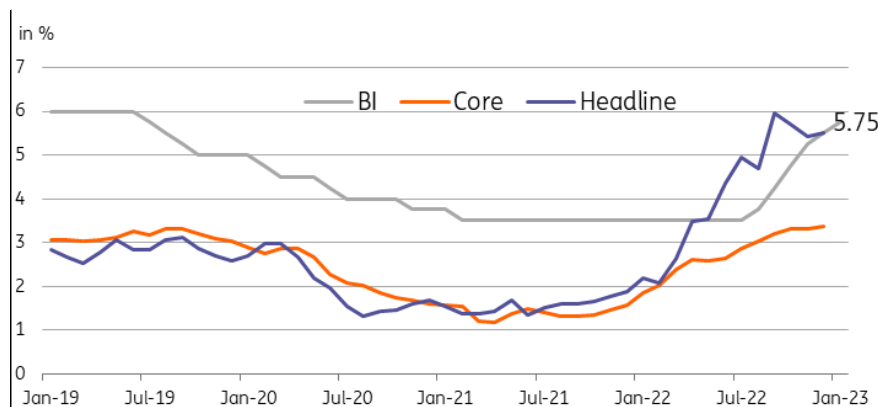
Bank Indonesia raises policy rate and lowers global growth outlook

Bank Indonesia (BI) raised its key policy rate by 25bp to 5.75%, a move widely expected by the market. BI Governor Perry Warjiyo suggested that global growth would likely slow with the central bank lowering its outlook for 2023 GDP growth to 2.3% year-on-year (down from 2.6%).

On the domestic front, BI still believes growth will settle within the 4.5-5.3%YoY expectation but this call appears to be banking on China making a quick recovery post-Covid

lockdowns. Meanwhile, Warjiyo also indicated that inflation had peaked sooner than expected in what could be the central bank's subtle shift in focus away from inflation and back to growth momentum.

BI's shift in tone suggests that this rate hike cycle could be coming to a close soon



Source: Badan Pusat Statistik and Bank Indonesia

Dovish undertones suggests BI may be close to tapping out of this rate hike cycle

Despite today's rate hike, we acknowledge the apparent shift in tone from Warjiyo. BI has opted to extend its tightening cycle given that inflation will likely be above target for the first half of 2023. However, BI's downward revision to the global growth outlook suggests that it is now increasingly wary of the negative impact this could bring to Indonesia's own growth trajectory. The stark shift in tone suggests that BI is likely approaching the end of this rate hike cycle and that a pause will be considered in the coming months.

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