

## Indonesia's central bank leaves rates on hold as landscape changes

Bank Indonesia kept policy rate at 3.5% as the currency remains on the backfoot. With little room for more rate cuts, we expect the central bank to push for non-policy measures to jumpstart slowing bank lending and help bolster the recovery



Perry Warjiyo,  
Governor of Bank  
Indonesia

Source: IMF/Flickr

**3.5%** 7-day reverse repurchase rate  
policy rate

As expected

### A very different landscape

Indonesia's central bank kept its policy rate at 3.5%, a move widely expected by market participants.

A few weeks removed from a policy rate cut, Governor Warjiyo held steady with the

currency under pressure after the sharp swings in global bond markets. The central bank indicated it had “limited space” for additional rate cuts at the February meeting and recent developments narrowed the space for rate cuts even further.

Despite the pause, the central bank retained its expectations for growth, keeping its 4.3 to 5.3% GDP forecast while also still expecting the current account to post a deficit of 1-2% of GDP despite posting a healthy trade surplus last month.

## Change in tone?

Noticeably absent from the Governor's usual talking points was the usual pledge to retain an “accommodative stance” which was replaced with the strategy to pursue “accommodative macroprudential measures”. This subtle shift could signal a definite move away from the policy tool to provide monetary support, at least for now.

Governor Warjiyo reiterated his call to commercial banks to pass on lower borrowing costs to consumers as he moves to bolster weak bank lending amidst the pandemic. Last month, the central bank resorted to non-policy moves to help push lending to real estate and car lending and we expect it to continue to find ways to bolster bank lending without resorting to rate cuts.

## Crash-lending, Indonesia's loan growth now negative despite several rate cuts



Source: Bank Indonesia

### Policy rate not going anywhere

We expect the central bank to remain on hold in the near term despite inflation falling below the Bank's 2-4% target as the currency is expected to remain pressured with the central bank vowing to “strengthen IDR stabilization efforts”.

Governor Warjiyo pledged support for the currency and remained confident the Indonesia rupiah would appreciate “in line with fundamentals” when financial flows normalise. With the Bank running out of room for more rate cuts for now, we expect it to push for non-policy measures to jumpstart slowing bank lending to help bolster the recovery.

