

Bank of Indonesia keeps rates steady after currency wobble

Indonesia's central bank keeps its policy rate unchanged at 3.5% at today's meeting to safeguard the stability of the rupiah



Governor of Bank Indonesia, Perry Warjiyo

3.5%

7-day reverse repurchase rate

Band of Indonesia policy rate

As expected

Steady as she goes

Bank Indonesia (BI) Governor Warjiyo kept rates unchanged at today's policy meeting despite below-target inflation. The central bank is clearly focusing on currency stability after the IDR's recent struggles and with the current account slipping back into deficit in the first quarter. The rupiah had enjoyed a strengthening bias for the first part of May before concerns about rising global interest rates and the possible accelerated timeline for the Fed taper forced a correction.

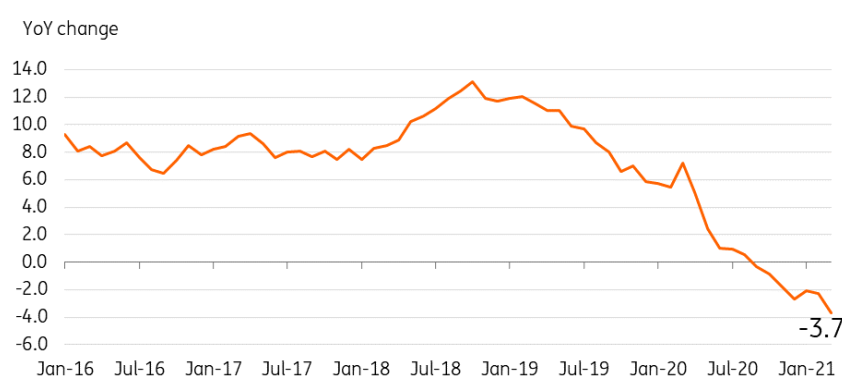
The domestic economy remains challenged by high rates of Covid-19 although recent

manufacturing and consumer sentiment data showed some signs of improvement. BI had previously hoped to provide additional support for the economic recovery however any such adjustments will likely only be possible should IDR enjoy more stability.

Bank lending still in the red

With the Bank of Indonesia apparently constrained from cutting rates further, BI officials have opted to initiate other efforts to reverse the trend of contracting bank lending. Bank loans have fallen for 7 months and counting, with central bank officials urging commercial banks to pass on lower borrowing costs to consumers after the hefty rate cuts of 2020. On top of this, BI has also rolled out special programmes intended to boost lending to consumers, relaxing restrictions for automobile and housing loans, in a bid to revive the sector and bolster capital formation.

Indonesia bank lending still in the red despite BI rate cuts



Source: Bank Indonesia

Warjiyo gives guidepost for reversal in stance

We expect the central bank to keep policy rates unchanged in the near term given the likely recurring threat of rising bond yields and depreciation pressures on the currency. Interestingly, Warjiyo did signal that BI could reverse course should inflation begin to pick up but he quickly clarified that price pressures would not likely accelerate until perhaps 2022. In the meantime, we expect the Bank to roll out additional measures to bolster bank lending via targeted initiatives to help support investment activity without resorting to additional rate cuts.