

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

Bank 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.

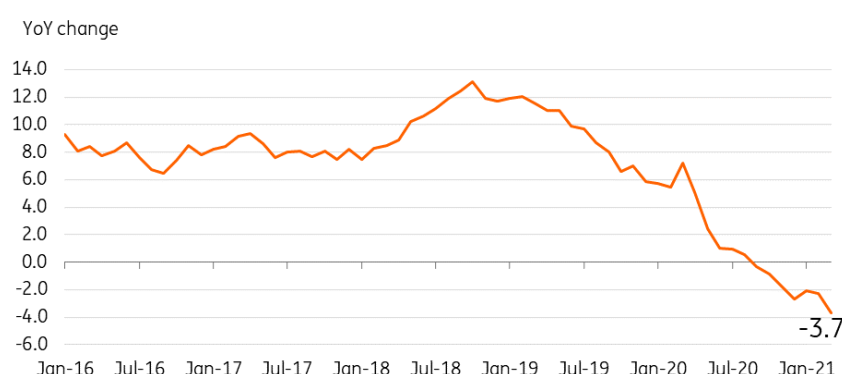
The domestic economy remains challenged by high rates of Covid-19 although recent

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.

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>.